

**Development Finance Analysis**

**for the Republic of Uzbekistan**

*(First ‘new’ draft version: 18/05/2020)*



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Abbreviations

|  |  |
| --- | --- |
| AAAA | Addis Ababa Action Agenda |
| ACRU | State Committee for the Protection of Competition |
| ADB | Asian Development Bank |
| Amcham | American Chamber |
| AMIS | Aid Management Information System |
| BAT | British American Tobacco |
| BMGF | Bill and Melinda Gates Foundation |
| CCA | Caucasus and Central Asia |
| CIFF | Children’s Investment Fund Foundation |
| CMDA | Capital Market Development Agency |
| CPA | Corporate Political Activity |
| DAC | Development Assistance Committee |
| DFA | Development Finance Assessment |
| DPL | Dutch Postcode Lottery |
| EBF | Extra-Budgetary Fund |
| EIB | European Investment Bank |
| EBRD | European Bank for Reconstruction and Development |
| FAO | Food and Agriculture Organization of the United Nations |
| FOREX | Foreign Exchange |
| FTTP | FAO-Turkey Partnership Programme |
| GoU | Government of Uzbekistan |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IsDB | Islamic Development Bank |
| IFIs | International Financial Institutions |
| IMF | International Monetary Fund |
| INFF | Integrated National Financial Framework |
| JICA | Japan International Cooperation Agency |
| MDGs | Millennium Development Goals |
| MoE | Ministry of Economy |
| MoF | Ministry of Finance |
| MoJ | Ministry of Justice |
| MP | Member of Parliament |
| MSME | Micro, Small and Medium Enterprise |
| MTEF | Medium-term Expenditure Framework |
| MTFF | Medium-term Fiscal Framework |
| MTRS | Medium-Term Revenue Strategies |
| NDS | National Development Strategy |
| NGOs | Non-Government Organisations |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Cooperation and Development |
| OOF | Other Official Flows |
| PM | Prime Minister |
| PPP | Public Private Partnership |
| RCC | Regional Co-ordination Centre |
| SAI | Supreme Audit Institution |
| SAMA | State Assets Management Agency |
| SBS | State Budgeting System |
| SDGs | Sustainable Development Goals |
| SOE | State-owned Enterprise |
| STBF | Susan Thompson Buffett Foundation |
| SU | Soviet Union |
| UAE | United Arab Emirates |
| UN | United Nations |
| UNA | United Nations Assembly |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organisation |
| UNSG | United Nations Secretary-General |
| USAID | United States Agency for International Development |
| USSR | The Union of the Soviet Socialist Republics |
| UZS | Uzbek Som (So’m); Uzbek national currency |
| VAT | Value Added Tax |
| WB | World Bank |
| WBG | The World Bank Group |

Executive summary

*(to be drafted upon the review of first, revised draft)*

Introduction

The 2030 Agenda for Sustainable Development (2030 Agenda) presents an ambitious, complex and interconnected vision that countries around the world have committed to working towards. Realizing this vision will require mobilizing a diverse range of public and private resources to contribute to sustainable development outcomes and achieving SDGs. Meanwhile, significant changes are taking place in the development finance landscape worldwide – traditional donors now share the space with emerging donors, foundations, the private sector, among others.

Countries face several challenges in developing an integrated approach to financing the SDGs. Mobilizing the scale of public and private resources required while maximizing their impact on social, environmental and economic dimensions of the 2030 Agenda presents a range of challenges, from managing complex financing instruments, to designing and implementing effective policies, and collaborating with a diverse range of actors. These challenges are often rooted in, or made more difficult by, misalignment between the planning and finance policy functions of government, as well as the participation of only a narrow group of stakeholders in dialogue and decisions on financing.

United Nations’ Member states recognized the challenge of SDG financing in the Addis Ababa Action Agenda. The 2019 Financing for Sustainable Development Report recommends countries to consider developing Integrated National Financing Frameworks (INFFs) to support their national development strategies. INFFs support shifting financing perspective towards long-term investment horizons and integrating sustainability as a central concern of investment decisions. It enables aligning private and public incentives with sustainable development, and better measuring the impacts on sustainability. The UNDP developed several tools to analyze existing financial resources and identify opportunities to mobilize additional sources of finance more efficiently to achieve the SDGs, including the Development Finance Assessments (DFAs). Many countries are using DFAs as the basis for developing an INFF roadmap.

Uzbekistan is strongly committed to achieving the SDGs and is setting itself up to deliver on the 2030 Agenda. The GoU established a high-level SDG Coordination Committee chaired by the Ministry of Economy and consisting of representatives of line ministries to oversee progress towards achieving Agenda 2030. The coordination committee established six joint thematic working groups, corresponding to the six UN-GoU thematic results groups (“livelihoods”, “social protection”, “education”, “health”, “environment”, and “governance”). These working groups: (1) consist of 108 representatives of some 40 ministries and government committees, NGOs, think tanks, and law enforcement structures; and (2) were assigned to consult, prioritize and adapt the global SDG framework to the country context.

This DFA supports the authorities’ efforts towards achieving the 2030 Agenda by strengthening their SDG financing mechanisms. It provides a comprehensive and accessible, non-technical ‘narrative’ around the financing for development prospects in Uzbekistan to build consensus among government and its partners around SDG financing solutions. It achieves this by following a process of a multi-stakeholder consultation informed by accessible analysis on finance policy issues and what they mean for a wide range of actors. The DFA roadmap represents this consensual approach towards implementing the priority SDG financing solutions in Uzbekistan.

The report starts with a brief stock-taking of the current socio-economic context of the country. It uses the lens of the sustainable Development’s three main pillars: economic, social and environmental development. is structured according to the five DFA dimensions: chapter 1 analyses trends in development finance flows in Uzbekistan. To the extent possible, it identifies the factors may be expected to influence each development finance flows over the short to medium term. The analysis starts as per 2013, in line with the availability of official data; chapter 2 describes the current state planning system and how it aligns with the budgetary processes. It compares the formal, ‘de jure’ institutional set-up, according to government legislation, with the ‘de facto’ planning and budgetary practices, based on available, recent expert analysis and consultations with government stakeholders; chapter 3 analyzes government policies and measures to harness private finance flows towards financing the country’s National Development Strategy and the 2030 Agenda; chapter 4 focuses on the GoU’s existing tracking system of both finance flows as well as the country’s development outcomes; finally chapter 5 assesses the availability of accurate data to the public and how it is being used to hold the GoU accountable to its policy intentions.

The report’s concluding chapter summarizes the key findings for each dimension. Subsequently, it lists the relevant recommendations for strengthening Uzbekistan’s SDG financing mechanisms and the implementation of an INFF. In this regard, the DFA aims to complement and build upon the existing recommendations and recent analysis provided by other development partners present in Uzbekistan.

Socio-economic context

This section presents a summary of sustainable development outcomes Uzbekistan and the priority challenges to accelerate progress. It is structured around the three pillars of sustainable development and concludes with a stock-take of Uzbekistan’s SDG progress. Considering the global unfolding pandemic, it presents the latest available data and figures of relevance to inform the analysis of development finance flows and instruments in Uzbekistan.

Economic development

In 2017, the authorities embarked on a wave of economic reforms to transition toward a more open and market-based economy. The key policy measures so far have included liberalizing prices, trade tariffs, and the exchange rate, opening the economy to private initiative and international trade, reducing the rates of direct taxes on businesses and households, reducing the role of the government in economic activity, and commencing civil service reform (WB, 2019).

Real GDP growth accelerated slightly in 2019 to 5.6% (See Table 1), supported by a 34% year-on-year increase in investment, largely driven by direct lending to SOEs, and growth in the agricultural and manufacturing sectors (OECD, 2020). Growth for 2020 is expected to slow markedly, to 1.8%, under the hypothesis that the pandemic and required containment efforts peak in the second quarter for most countries and recede in the second half of the year (IMF, 2020).

Table 1 Uzbekistan: Selected Economic Indicators

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Economic Indicators** | **Average 2000-16** | **2017** | **2018** | **2019** | **2020(p)** | **2021(p)** |
| Real GDP growth, y-on-y (in %) | 6.8 | 4.5 | 5.4 | 5.6 | 1.8 | 7.0 |
| Consumer Price Inflation (Year Average, %) | 13.8 | 13.9 | 17.5 | 14.5 | 12.6 | 10.6 |
| General Gov. Overall Fiscal Balance (% of GDP) | 0.5 | 1.6 | 2.1 | 0.0 | -3.3 | -1.3 |
| Current Account Balance, % of GDP | 4.0 | 2.5 | -7.1 | -5.6 | -9.4 | -6.4 |

Source: IMF, 2020

Rapid credit growth, price liberalization, public wage adjustments, and high inflation expectations have maintained price pressures in 2019. The GoU intends to limit inflationary pressures by continuing their tight monetary policy, containing credit growth and phasing out directed credit.

Uzbekistan has one of the more diversified export baskets in Central Asia and trades with a wider range of countries than most of its regional peers. Strong export growth and remittance contributions have contributed to a narrowing of the current account deficit from 7.1% in 2018 to 5.6% in 2019. Uzbekistan has substantial external buffers with **reserves** at 13 months of imports and external debt a moderate 35 percent of GDP at end-2018.

Prior to the Covid-19 crisis the Government forecasted foreign trade in 2020 to be at USD 46.8 billion with a negative balance of USD 5.8 billion, mostly driven by an increase in imports of technological equipment and machinery (MoF, 2020). However, the government response to the COVID-19 will probably increase the account deficit, while growth of the domestic economy is likely to slow. With oil prices having lunged However, for 2020The current account deficit among CCA oil exporters could decline further to 6.7 percent of GDP in 2020, led by a sharp fall in exports (including those of commodities), with affects most pronounced in Azerbaijan, Kazakhstan and Uzbekistan. (IMF, 2020)

The global COVID-19 pandemic is having a significant negative impact on the economies of Central Asia. Trade has been severely disrupted, healthcare systems are coming under strain, and consumption and investment are plummeting. These global and regional dynamics will weaken the Uzbek economy, notably through the fall of prices and sales of natural gas to Russia and China, the curtailing of remittances flows from workers in Russia (about USD 1.3 billion), the partial closing of Kazakhstan, the country’s main export market for fresh agricultural products, and the weight of announced relief measures on public finances (OECD, 2020).

For the economy to withstand the shock, the government will have to strike the right balance between immediate measures to speed up the recovery and continued reform effort to sustain the country’s growth potential and the diversification of its economy. The IMF (2020) considers Uzbekistan has the fiscal space to consider fiscal policy measures, e.g. targeted social spending, such as cash transfers to the poorest households, especially those affected by a decline in remittances and loss of employment, as well as temporary subsidies or deferred tax payments to the hardest hit firms, such as SMEs and the hospitality sector without reallocating existing plans. Such deviations from planned budgets should be clearly communicated as temporary efforts to address the immediate challenge. The government indicated that if export revenues decrease due to falling gas prices (following lower oil prices) and the devaluation of the Russian and Kazakh currencies, subsequent losses to the state budget (about USD 1.1 billion according to official figures) should be fully compensated by higher gold prices (OECD, 2020).

Since the beginning of March, the UZS has depreciated by less than 1 percent, and the managed floating against the dollar has been maintained. The currency has been strongly supported by the Central Bank’s sale of foreign exchange which should increase by 30percent compared to last year, on the back of higher gold prices.

**Box 1: Uzbekistan policy response to COVID-19**

*Public health measures*. Uzbekistan declared a state of emergency on 16 March. Borders have been closed, and the capital, Tashkent, has been quarantined. All transport within the country has been put on hold, and schools, public places and non-essential businesses have been closed. Only freight transport has been excluded from bans.

*Monetary policy*. The Central Bank has decreased its policy rate by 1 percentage point mid-April to 15%, but the rate remains at a very high level to contain inflation amid external uncertainty due to the coronavirus outbreak and the expected effects of price liberalisation for selected goods and services. The bank also has offered several targeted refinancing operations for commercial banks (350 bn UZS), but did not change regulatory, capital or liquidity requirements*.*

*Economic support measures*. An Anti-Crisis Fund of UZS 10trn – EUR 950 m – (1.5 percent of GDP) has been set up to cover immediate medical and quarantine expenses, increase the number of social benefit recipients, provide liquidities, interest subsidies, loan repayment deferrals, guarantees to businesses, and finance infrastructure work in regions to sustain employment. The Fund also finances an allocation of UZS 200 bn (EUR 19 m) to the Public Works Fund to support employment and the construction of additional infrastructure, and of UZS 500 bn (EUR 47m) to the State Fund for Entrepreneurship Support to assist job creations by businesses. A series of additional fiscal measures have been introduced. In particular, tax deferrals for most affected SMEs and individual entrepreneurs until October; a moratorium on tax audits until the end of 2020 and on bankruptcy procedures until October; a deferral of the scheduled increase of tax (utility - ?) rates; an extension of tax declaration submission until October; an ease of VAT calculation and payment requirements for small businesses; no excise tax and customs duties for the import of 20 types of basic consumer goods until the end of the year; and the suspension of rent payments for the use of state property by business entities that have been forced to suspend their activities. Finally, for households, parents are granted a 100 percent temporary disability benefit, and childcare benefits and material assistance are automatically extended for all beneficiaries.

Source: OECD (2020), IMF (2020)

Structural economic challenges/priorities

The GoU identifies a series of critical threats and risk emanating from existing structural deformation of the national economy. These include outdated technological base of key industries, predominance of commodities in exports, high share of agriculture in gross value added, massive shadow economy, low labor productivity and the high energy and resource intensity.

Despite high proportion of social expenditure, the economy of Uzbekistan is characterized by low inclusiveness, along with low quality of human capital, inequality in income distribution, week social security and research and scientific potential, depletion and inefficient use of resources. Deficiencies in provision of material and technical base in education system result in poorly trained labor force and uneven territorial distribution of demand for various professions. Week interaction between scientific institutions and real sector of the economy impedes introduction of innovations and adaptation of new technologies in manufacturing.

There is shortage of specialists in individual regions of Uzbekistan, especially doctors and teachers as well as skilled blue-collar workers, which causes graduates to seek jobs beyond their specialization. At the same time regions with labor surplus suffer from growing unemployment due to high supply of labor force, while massive unofficial employment (60%) negatively affects the revenue of the National State Budget.

Social development

The Sustainable Development Goals (SDGs) are anchoring the country’s inclusive growth agenda, especially on education, health, public infrastructure, and financial inclusion. The GoU’s “Action Strategy for 2017-2021” provides the national development policy framework and is fully aligned with and contributes to the SDGs. The poverty rate declined from 27.5 percent in 2001 to 11,4% in 2018[[1]](#footnote-1). Poverty reduction has been identified as one of the key priorities of the government. Inequality also declined. The latest available data estimates the official Gini coefficient to be 0.29 (World Bank, 2016) and the proportion of people with income below50 percent of median income fell from 12.7% in 2010 to 7.8 in 2018. While the country is on course to achieve the poverty and inequality goals, related challenges such as rural-urban and regional disparities persist (World Bank, 2016). Women and youth represent by far the largest group of vulnerable populations in Uzbekistan, with significantly lower than average access to labour markets, tertiary education, decision-making, and business opportunities.

National data to monitor progress on individual SDGs is scarce. International monitoring of SDG progress by the UN Sustainable Development Solutions Network ranks Uzbekistan 52nd out of 162 countries in 2019 (Figure 1). Its global index score amounts to 71.1, 1.0% above the regional average and like the scores of countries including Greece, Israel, Russia, Viet Nam and Algeria. which is 1.0% above the regional average.

Figure 1 Monitoring SDG Progress in Uzbekistan

|  |  |  |  |
| --- | --- | --- | --- |
| **SDG PROGRESS** | **TREND** | **SDG PROGRESS** | **TREND** |
| 1. NO POVERTY |  | 10. REDUCED INEQUALITIES | no data |
| 2. ZERO HUNGER |  | 11. SUSTAINABLE CITIES AND COMMUNITIES |  |
| 3. GOOD HEALTH AND WELL-BEING | 12. RESPONSIBLE CONSUMPTION AND PRODUCTION | no data |
| 4. QUALITY EDUCATION |  | 13. CLIMATE ACTION |  |
| 5. GENDER EQUALITY |  | 14. LIFE BELOW WATER | no data |
| 6. CLEAN WATER AND SANITATION | no data | 15. LIFE ON LAND |  |
| 7. AFFORDABLE AND CLEAN ENERGY |  | 16. PEACE, JUSTICE AND STRONG INSTITUTIONS | no data |
| 8. DECENT WORK AND ECONOMIC GROWTH |  | 17. PARTNERSHIPS FOR THE GOALS | no data |
| 9. INDUSTRY, INNOVATION AND INFRASTRUCTURE |  |  |  |

Source: UNSDSN (2020) - <https://dashboards.sdgindex.org/#/UZB> Note: Yellow SDG = Challenges remain; Orange SDG = Significant challenges remain; Red SDG = Major challenges remain; Grey SDG = no data available. Green arrow = on track to achieve the SDGs; Orange arrow = score moderately increasing, but insufficient to meet goals; Red arrow = score stagnating;

In Uzbekistan, a 2018 IMF assessment of spending required to reach SDGs in health, education, and infrastructure alone found that the country needs additional spending of roughly 8.7% of GDP by 2030(IMF, 2019b). The attainment of the SDGs will require both a more efficient use of all available resources, as well as the mobilization of non-traditional sources of development financing.

The 2019 UNDP Human Development Report categorizes Uzbekistan as a high human development category— positioning it at 108 out of 189 countries and territories. Between 2000 and 2018, Uzbekistan’s HDI value increased from 0.596 to 0.710, an increase of 19.2 percent. However, this HDI score remains below the average of 0.750 for countries in the high human development group and below the average of 0.779 for countries in Europe and Central Asia. Uzbekistan’s GNI per capita increased by about 109.2 percent between 1990 and 2018. Due to a lack of relevant data, the IHDI has not been calculated for this country. There is also no recent data on inequality, nor GINI.

While it succeeded in reducing poverty rates significantly, the state-led growth model paid scant attention to the labor market difficulties of the large numbers of unskilled and other disadvantaged workers (IMF; 2019). Achieving the SDGs would support the government’s key priority of job creation and inclusive growth. Given its bulging working-age population, creating more and better jobs is the country’s overarching priority[[2]](#footnote-2). According to the Ministry of Labour, only 5.7 million people are employed in the formal sector out of 19 million in the labour force (Figure 2). The dependency ratio is projected to peak in 2022 at 51.15, up from 47.96 in 2014. The large informal sector is leaving a large amount of people vulnerable to the slowdown, while accumulated labor supply overhang boosted by SOE restructuring and returning migrants due to the COVID-19 crisis may exacerbate difficulties to create sufficient jobs (IMF, 2019). Prior to the COVID-19 crisis, the authorities were redesigning labor policies from scratch to help unskilled and other disadvantaged workers find more and better jobs, including plans to help vulnerable groups by improving skills training, boosting funding for active labor market programs, providing greater support for migrants, and reforms to the labor market. (issue with unemployment data contradicts: ADB mentions total unemployment to 5.9% for 2019)

Figure 2 Labour Market Structure and Demographic Trends in Uzbekistan

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Source: Asian Development Bank (2020), UNCTAD (2020)

Environment

With a traditionally resource-based economy, unsustainable use of natural resources and climate change pose a cross-cutting threat to achievement of national SDGs. Without additional resource saving measures, the country may face deficiency of water resources, growth in land desertification and degradation, increase in occurrence of droughts and other dangerous phenomena, leading to instability of agricultural production and threatening to the country’s food security (NDC, 2017). Rural livelihoods are particularly at risk, with women in the front line. Around 50 percent of Uzbekistan’s population is rural, of which a large part are among the poorest, relying on natural, over-depleted, assets for their livelihood. Climate change threatens to keep, or further push rural populations, into poverty, as they lack knowledge and resources to adopt more resilient practices and technologies.

Uzbekistan is the only country in Central Asia where emissions have remained relatively stable since 1990 and then decreased towards 2018. Measures and actions aimed at energy resources saving have allowed Uzbekistan to stabilize level of greenhouse gas emissions and decrease its contribution to the world-wide emissions. According to the GHG inventory data, increase in the GHG emissions during the period from 1990 to 2010 was around 10% only, followed by a significant decline towards 2018 (Figure 3). Emissions of N2O also declined because of decreases in the use of mineral fertilizers and increases in the application of the organic fertilizers. Methane emissions increased almost constantly due to growth in the agricultural sector (emissions from livestock, manure) and in the population (waste). In Tashkent, Farghona and Olmaliq, NO2 and particulates exceed recommended levels; high levels of heavy metals from waste burning, fuels, metallurgy; Heavy use of agricultural chemicals have led to degrading air quality in rural areas (UNEP, 2015). Almost 90 percent of all GHG emissions originate in the energy sector (Zoi, 2015).

Figure 3 CO2 Emissions Drivers in Uzbekistan, 2000-2018E

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Source: International Energy Agency, 2020

Uzbekistan remains one of the most energy inefficient countries in Eastern Europe and Central Asia region. Current GDP’s energy intensity of Uzbekistan is twice the average global level. According to forecasts, electricity consumption in the economy will increase by 1.8 times by 2030, with gas consumption increasing by 1.7 times and POL consumption – by 2.1 times (GoU, 2020). Industry and agriculture are among the largest power consumers in the country and also the largest sources of energy inefficiencies due to outdated technologies and high reliance on water pumping. The power generation sector accounts for 32.8% of emissions, followed by manufacturing (17.5%), commercial and agriculture (9.3%), transport (7%), other energy industries (3.4%) and households (3%) (IEA, 2015)

Great attention is paid in the country to the development of renewable energy sources, especially solar energy. E.g. the production and experimental use of solar water heaters for hot water supply to residential houses and social facilities are carried out for more than 10 years. Development partners have supported the construction of the largest solar power plant (100 MW) in Central Asia. With two additional solar plants of similar capacity planned, it is expected to bring up the share of solar energy in the total energy balance of the country to 6% by 2030.

Uzbekistan has extensive environmental legislation, which marginally covers protection of the climate system and mainly focuses on clean air. While the country does not have specific climate action plans or legislative acts, climate-related concerns are covered in energy, construction, transport, water and forest development programmes and investments as well as in the country’s vision 2030 (Zoi, 2015). This vision sets provisional goals for the reduction of the energy-intensity of GDP and for increasing the share and use of renewables, primarily solar power. Currently, Uzbekistan is drafting legislation on renewable energy sources taking into account the experience of developed countries and the growing domestic needs for energy. Uzbekistan has also revised building codes to meet higher energy efficiency standards. The GoU’s National Sustainable Development Strategy 2017-21 gives little attention to the environment, with focus on social and economic issues.

Dimension 1: assessing development finance flows

Finance has a critical role to play in delivering the national development outcomes and the 2030 Agenda. Uzbekistan will need to mobilize the right scale and mix of all resources – public and private, domestic and international – while maximizing synergies and minimizing risks.

This first dimension of the DFA’s analytical framework analyses financing trends within the country. It builds as comprehensive a picture as possible of public and private resources, flows and financial instruments. It first provides the headline picture of all available development finance flows to Uzbekistan. Then, it reviews each individual development finance flow and main actors. The findings from this chapter directly relate to the INFF’s first building block “*assessment and diagnostics*”.

Current trends in development finance flows

Total available development finance in Uzbekistan represented an estimated 69.3 percent of GDP in 2018 (Figure 4). Total development finance has been increasing steadily since its lowest amount in 2015, when it equaled 54.9 percent. Public finance, both domestic and international, underpinned the increase in 2018.

While the total amount of available development finance in 2018 was roughly like the level in 2013, its composition has changed. The share of international public finance, mostly ODA and international public debt, increased significantly following the onset of the major economic reforms and foreign policy shift from 2017 onwards.

Figure 4 Trends in Aggregate Financial Flows, Uzbekistan

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Sources: IMF, WB, Ministry of Finance of Uzbekistan.

Significant volatility has marked international private flows. This volatility reflects Uzbekistan’s dependence on the economic performance of Russia’s economy, its main source of remittance inflows. FDI inflows have also been erratic and below expectations, with a short-lived increase in 2017.

Domestic finance flows have dominated development finance in Uzbekistan. Both public and private domestic finance represented over three quarter of total development finance in the last three years (Figure 5). This share is roughly like its share in 2013. The composition of international development finance has shifted from a preponderance of private international towards an increasing relevance of international public finance.

Figure 5 Composition of Development Finance Flows, Uzbekistan

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| --- | --- |
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Sources: IMF, WB, Ministry of Finance of Uzbekistan.

At the level of individual development finance flows, government revenues remain the most important source of development finance. They represented 27.8 percent of GDP in 2018, down from 30.3 percent in 2013. These figures are likely underestimating the true share of government revenue as a GDP, both because of the 2017 upward revision of GDP figures and the lack of inclusion of certain categories of government revenue in the state budget prior to 2020. Private domestic investment[[3]](#footnote-3) is the second largest source of development finance in Uzbekistan, representing 21.3 percent in 2018. This flow most likely overestimates the contribution of domestic commercial investment in the country as state-owned enterprises (SOEs) still represent an estimated 40 percent of Uzbekistan’s GDP. The direct implication of this significant government participation in the economy is that the GoU may exert significant influence over the allocation of nearly 50 percent of its total development finance.

Figure 6 Overview of Individual Financial Flows, Uzbekistan

Sources: IMF, WB, Ministry of Finance of Uzbekistan. 2019 data are estimates.

note: domestic public debt data from the DFA file is inconsistent with the analysis from the IMF/WB.

Public domestic and international financial flows

Public finance is comprised of government revenue, public debt, official development assistance (ODA) and other official flows (OOFs). In contrast to commercial flows, the government can control how to allocate its available public finance in line with its strategic development priorities.

Uzbekistan is a lower middle-income country and is still eligible to receive ODA. However, as countries develop their access to concessional financing diminishes, while tax revenue collection often doesn’t fully compensate for this decline. As a result, countries start exploring new financing opportunities on international capital markets to meet growing public spending needs. If not managed well, the risk of debt distress is real. The international community’s growing interest to support Uzbekistan provides a timely opportunity to maximize concessional financing, while still possible, and benefit from policy support and technical assistance in public finance management to ensure a sustainable transition.

Government revenue

In 2019, consolidated government revenue[[4]](#footnote-4) in Uzbekistan amounted to an estimated 132,761 billion Uzbek Soms (IMF, 2019). This represents a year-on-year increase of 17.1% and confirms the recovery of government revenue following their decline over the period 2013-17. The recovery in 2018 was due to the positive impact of the exchange rate devaluation in September 2017 and the comprehensive economic reforms the authorities initiated in 2017 (WB, 2019). Higher commodity prices further underpinned the increase in 2019. The exchange rate devaluation, GDP rebasing (?) and the ongoing consolidation of extra-budgetary funds (EBFs) and accounts into the budget make it difficult to interpret recent government revenue trends in Uzbekistan. Furthermore, the lack of consistency of the available revenue data from international sources warrants careful consideration when selecting the revenue data series for the DFA.

Figure 7 Composition of Government Revenue, Uzbekistan

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| --- | --- |
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Source: IMF Government Finance Statistics, 2020.

According to the World Bank (2019) tax revenues as a share of GDP in Uzbekistan are substantially larger than in ECA on average and in the lower middle-income countries. Uzbekistan’s tax revenues are 5.4 percentage points of GDP higher in 2018 than the average of the lower middle-income countries. The share of social contributions[[5]](#footnote-5) decreased from 5.4 percent in 2013 to 3.3 percent in 2019 as well as the share of other revenues from 3.84 percent in 2013 to 0.91 percent in 2018.

The current tax mix’s reliance on indirect taxes signals a potential to shift towards a more progressive tax system: taxes on goods and services (as a percent of revenue) in Uzbekistan in 2018 are on average larger than in ECA and in the lower middle-income countries, while taxes on income, profits, capital gains as well as taxes on international trade are lower than in these comparators. VAT and excises represent close to 80% of indirect taxes. The taxes on international trade in Uzbekistan are lower in 2018 due to large exemptions.

An important drain on government’s fiscal space are Uzbekistan’s numerous tax incentives and exemptions. Amounting to 6.4 percent of the GDP in 2018, they represented almost a third of budgetary revenues (WB, 2019). As with the overall direction of policy and directed credit, the largest share of tax incentives in Uzbekistan is for manufacturing (largely car production), mining, and finance[[6]](#footnote-6). Importantly, they were introduced without a cost-benefit analysis and are not approved by the regular parliamentary process. The contribution of SOEs to state coffers is ambiguous: on the one hand, they represent a large share of easily collected tax revenue, while on the other hand benefit from receive a wide range of privileges, including subsidized intermediate inputs and preferential access to credit, which enables them to carry an elevated tax burden. As such, the pace and sequence of reforming the government’s support to SOEs will probably determine the revenue trends in the medium term.

The GoU provides tax incentives in a discretionary manner. This means that tax incentives are provided on a case-by-case basis through an administrative process and not automatically through the law and via the filing of tax returns. Nearly a third of the overall tax benefits are provided by government decrees. Discretion on provision of tax incentives reduces the efficacy of the investment policy regime as it creates a barrier for the investment opportunity because investors need to go through approvals which is costly both in terms of time and money. If incentives are provided in the laws, the incentives are subject to parliamentary scrutiny. Taxpayers also have the option of using the tax appeals process to air their grievances when the tax incentives are availed through the usual tax filing process.

The currently unpredictable and complex tax system weighs negatively on private sector development. Although the Tax Code lays out the key tax bases and the rates for the personal income tax and the VAT, other tax rates are set by the government in the annual budget resolutions, which have become essentially mini-Tax Codes. Also, small firms still have strong incentives to stay small, downsize, or split themselves to avoid migrating into the standard tax regime, with implications for job creation (WB, 2019).

Therefore, the focus of the recent tax reforms has been on reducing and unifying the tax burden on small and large enterprises, unifying the rates of corporate profit tax, personal income tax, and the social tax to 12 percent, rationalizing the VAT payments, reducing the number of direct taxes and mandatory payments, and improving tax administration procedures. Improvements include the on-line tax platform run by the State Committee on Taxation in combination with clear communication and taxpayer education through the citizens’ budget initiative. These significant improvements achieved in tax compliance translated into improved tax revenues and an increase of the World Bank’s Paying Taxes score from 52.3 in 2015 to 69.9 in 2020. According to the report the pervasive state control and tax enforcement methods[[7]](#footnote-7) such as the use of commercial banks for tax reporting and collection (e.g., through debiting accounts of tax debtors without the account holder’s acceptance) are among the factors that contribute to the unfavorable business environment in Uzbekistan

In Uzbekistan, the Tax system and policy are in the hands of MoF, whilst the implementation is entrusted to the State Committee on Taxation. The State Committee on Taxation collects about 84 percent of the total public revenues[[8]](#footnote-8). It collects all the taxes – including VAT, excise, property, land, water use, and business taxes. Tax revenues are currently centralised and subsequently shared between the central and sub-national governments through a fairly complex model. Intergovernmental transfer system is basically horizontal, ensuring that there is some level of equalisation between different layers of government. In Uzbekistan, the Ministry of Economy (MoE) is empowered to advise MoF on the widening the tax base to boost domestic revenues and analyses the implications of all expenditure proposals as they influence both demand and supply side.

Local State Administrations

In Uzbekistan, tax revenue represents 64 percent of subnational government revenue, amounting to 7 percent of GDP and 29 percent of general government revenue (UCLG, 2019). Subnational governments’ tax revenue is composed of shares of national taxes and locally raised tax revenue.

Subnational governments (SNGs) do not have the authority to change tax rates or the tax base of local taxes. Neither can they provide tax benefits on local taxes. The sharing rates of shared taxes vary from year to year and differ for different local governments. They are established by the law on the central government budget for the coming fiscal year. Local taxes are made up of gasoline tax, property tax, land tax and simplified land tax. The property tax gains a significant share of local tax revenues (18.5 percent) and local revenues (11.8 percent), which is one of the largest compared to the Euro-Asian countries with similar scope of local government sector. It amounted to 1.3 percent of GDP in 2016, which is high by international comparison. Tariffs and fees, property income and other revenues account for 10 percent of subnational government revenue. There is little if any autonomy of regional and district governments in influencing these revenues.

Shared taxes are viewed as a kind of a balancing transfer of revenues from central government. The horizontal allocation of this transfer to subnational governments from central government is not fully determined by a transparent and rule-based system. The main issue is inadequate transparency and rules, and variability from one year to another. Moreover, the transfer system lacks predictability. Subnational governments do not receive budget allocation information to develop their budget before the Presidential Decree (confirming the approved appropriations) informs them about the amounts of transfers.

Subnational governments are not permitted to run budget deficit. They can increase their expenditures only in case their revenue collections exceed the forecasted amount adopted in the budget decree. They also cannot provide guarantees in favor of third parties or grant budget loans to non-governmental entities or individuals. SNGs can attract short-term loans from the upper level of government, to be repaid by the end of the fiscal year. They cannot borrow from anywhere else.

Priority areas in terms of ensuring the financial sustainability of the regions will include strengthening the financial framework of the territories; mobilizing reserves and capacities of regions to expand the revenues part of local budgets; as well as reducing districts and cities receiving subvention through the accelerated development of industry and services sector there. The gap between the regions in terms of budgetary provision is expected to be minimized through measures on improving inter-budget relations and fiscal policy.

It seems important in terms of strengthening the revenue base of local budgets to gradually align the cadastral value of property; determine the mid-term rate of regulatory contributions from regulatory taxes in order to increase the interest of local self-government bodies in raising revenues of local budgets, etc.

Revenues from privatization of State Owned Enterprises

Like all the former socialist countries Uzbekistan has inherited the economy with almost 100 percent of state ownership. Following the dissolution of the USSR, Uzbekistan and most other Central Asian republics followed a gradual transformation policy. The small-scale privatization in the early 1990s was not followed by the large-scale privatization and the state controlled companies, especially in mining and energy sectors, have remained strongly in the state hands. Over 90 percent of economic entities operating in Uzbekistan are nowadays in the private hands. However, 40 percent of GDP is still generated by the state-owned companies.

Privatization proceeds are reported in the budget as revenues of the Privatization Fund, and in 2019 the total revenues were estimated at UZS 150 billion.[[9]](#footnote-9) At the website of the SAMA[[10]](#footnote-10) at present there are over 400 companies listed as undergoing restructuring. Privatization revenues have been steadily growing until 2017, followed by a significant drop in 2018, with some recovery expected in 2019. With the creation of a separate government body – SAMA – the process is expected to accelerate. As information on privatization differs from one source to another, it is advisable to improve the coordination and ensure that the data is consistent and the state assets are properly catalogued before their disposal. Activities of SAMA in the first year of operation suggest that the priorities are set right and that the privatization revenues will not only grow, but secure the best possible market price.

A new wave of privations was launched in 2019, with the Presidential Decree on measures for further improvement of the mechanisms for attracting foreign direct investment in the economy of the Republic.[[11]](#footnote-11) Around the same time the Cabinet has prepared a resolution on how capital markets will be used for privatisation in Uzbekistan.[[12]](#footnote-12) SoEs will be offered for privatisation through the issue of shares (IPOs) offered on the Uzbek capital market. A State Asset Management Agency[[13]](#footnote-13) has been tasked to ensure that the corporate governance[[14]](#footnote-14) system in SoEs is developed and that they are managed appropriately so that they can be offered for privatization in the near future. The Agency has provided a list of companies that will be subjected to privatization[[15]](#footnote-15) in the future.

It is important to avoid privatization does not simply transfer rents to a small set of elites requires developing and sharing a vision for its plans in each subsector or major market in the economy. Thus, the World Bank (2019) recommends developing a regulatory and market structure that provides appropriate incentives, promotes competition between firms, and reduces regulatory barriers to growth, such as poor property rights, restrictions on resource reallocation, including on labor mobility. Improving financial sector performance, concurrently dealing with SOBs, ensuring that banks are not captured by particular borrowers, will support improved performance in the new private sector.

Public Debt (This section will be revisited as the original DFA data on domestic debt is unclear;)

Uzbekistan has always been very prudent in dealing with both fiscal deficit and public debt. In 2018, fiscal deficit has been about two percent of GDP, whilst public debt has been about 20 percent of GDP[[16]](#footnote-16) (see: IMF, 2019).[[17]](#footnote-17) It is expected that in efforts to control the debt that the fiscal deficit is less than 1.5 percent in 2019. In 2018/2019 Uzbekistan has had only the external public debt, as in 2016 the country has cleared all the debt denominated in domestic currency (see: World Bank, 2019). It is expected that the domestic debt will be used to finance the restructuring of the banking/financial sector (see: IMF, 2019). In 2019, the public debt denominated in domestic currency has amounted to USD 72 million (see: IMF, 2019).

Figure 8 Public Debt

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Source: Ministry of Finance, Uzbekistan.

Prior to the exchange rate adjustment, official public debt – almost all of it external – represented about 10.5% of GDP (WB, 2019). Because of the devaluation in September 2017, it is now about 24%. Almost all domestic debt was repaid last year. The IMF’s latest debt sustainability analysis suggests that Uzbekistan faces a low risk of debt distress. The IMF’s analysis was conducted after the devaluation. The government does not have a debt strategy separate to its overall public commitment to maintain fiscal prudence.

The Budget Code regulated the issues of public debt, together with a number of by-laws enacted either by the President and/or Cabinet. The President or the Cabinet are authorised to approve guarantees for an Uzbekistan’s resident (legal entity). Guarantees cannot be extended in the case of an individual borrower. MoF manages the process on behalf of the Government and is tasked to recover the amount of money paid as a guarantee and associated costs. Although giving state guarantees are not technically speaking a debt instrument, they may become a debt if the guarantee is activated when the borrower has defaulted.

Public debt is projected to remain moderate over the medium term, but additional spending needs will likely have to be accommodated. Overall fiscal deficits of close to 2 percent of GDP would stabilize the public debt at about 25 percent of GDP.

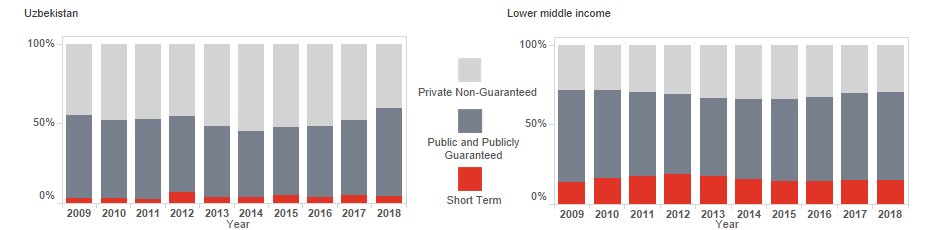
Estimates of additional spending needed to achieve the UN’s Sustainable Development Goals (SDGs) on health, education, and selected public infrastructure point to significant future spending pressures. Phasing out policy-based lending would open up some fiscal space; there would also seem to be significant scope for mobilizing additional revenue given that Uzbekistan’s revenue-to-GDP ratio (25 percent of GDP) is presently well below CIS peers (34 percent of GDP). IMF; 2019)

External debt

Since 2010 external debt has been growing in Uzbekistan at annual rate between 10 and 15 percent, and has jumped over 20 percent between 2018 and the first half of 2019 (CBU, 2019).

Government debt has been on increase, as the Government has decided to borrow in order to fund some social services initiatives, as well as development programmes and regional development. Disbursements of new debt are assumed to average around 5 percent of GDP per year, as the government uses multilateral and bilateral official borrowing for financing investment and to support its reform plans (IMF; 2019). Under these assumptions, the PPG debt-to-GDP ratio is projected to gradually rise from 20½ percent of GDP in 2018 to 26 percent of GDP in 2039. ( what about the impact of COVID?)

Figure 9 Composition of external debt in Uzbekistan and LMICs



Source: World Bank, International Debt Statistics, 2020.

For governments, bond markets provide a tool for raising the types of funding needed to support SDGs and for managing and helping to create an appropriate macro-environment for long-term financing. Local currency bond markets can support diversifying financial intermediary channels and mitigate the impacts of financial crises. They also have the potential to help mobilize the country’s savings to meet its infrastructure investment needs.

In early 2019, the Government has issued EUR1 billion EURO bond[[18]](#footnote-18) (Table 2). The dual-tranche trade raised $500m worth of five year bonds priced at 4.75%, and $500m worth of 10 year bonds, priced at 5.375%. The Eurobonds helped place Uzbekistan on the map, confirmed the recently obtained international rating (BB- rating by Fitch and Moody’s assigned Uzbekistan its first ever long-term issuer rating: B1 with a stable outlook, based on low government debt and positive demographic trends), and provided an affordable benchmark for further international borrowings[[19]](#footnote-19). According to investors, increasing transparency and better availability of data, especially regarding the country’s mineral sector, along with sustained increase in productivity growth and competitiveness would enable improving the financing conditions on international markets. Downside risks include slower growth, strong inflation and the rise of political instability, which would undermine the government’s capacity to effectively implement the significant and challenging reforms[[20]](#footnote-20).

What about debt from China?

Table 2 Outstanding Bond issuance, Uzbekistan

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| --- | --- | --- |
| **Сurrency** | **Outstanding bond issues** | **Cumulative volume** |
| **sovereign** |  |  |
| UZS | 18 | 3 200 000 000 000 |
| USD | 2 | 1 000 000 000 |
| **corporate** |  |  |
| UZS | 7 | 308 000 000 000 |
| USD | 1 | 300 000 000 |

Source: Cbonds, 2020.

The recent issue of public bond will have a spill-over effect on the improvement in reporting practices and better focus on the transparency and communication with the (major) investors. Issuing bonds offered “*diversification of funding. It is an opportunity to establish a relationship with the capital markets, and it anchors reform progress. This will help companies to improve in terms of corporate governance, such as getting credit ratings. These are important steps as companies become more resilient and better governed*.”[[21]](#footnote-21) Major SOEs are gearing up to secure an international credit rating, allowing it to tap into international financial markets. This trend of upcoming IPOs and bonds sales by local firms will “boost corporate sector valuations and capital markets by introducing international reporting standards, better governance and transparent decision making.

Public spending

Uzbekistan’s government spending is higher than in most of its relevant comparators, split equally between outlays on-budget and off-budget. Consolidated government spending amounted to 35.2 percent of GDP in 2018; including quasi-fiscal losses, spending amounts to at least 41.2 percent. This off-budget spending being larger than on-budget spending is a significant challenge to efficient and transparent public spending. The spending off-budget includes outlays by the remaining EBFs[[22]](#footnote-22); the off-budget accounts of budgetary organizations; government investment spending financed by foreign project loans; policy lending by the Uzbekistan Fund for Reconstruction and Development (UFRD), the government, and foreign lenders; and estimates of the quasi-fiscal losses of state-owned enterprises (SOEs).

Within off-budget spending, the large share of policy-based – or directed – lending and the quasi-fiscal losses of SOEs reflect the government’s support to capital-intensive industry that generates little employment and foreign direct investment. The authorities are starting to reform policy-based lending and plan to include it in the budget ( WB, PER).

The expenditures on-budget cover only the central and local governments, including some of the former state-targeted extra-budgetary funds that have been consolidated into the central government in 2018 and 2019. With the public sector being a large employer in Uzbekistan, wages represent the largest share of on-budget spending (Figure 10), accounting for almost half of the government budget and close to 11% of GDP. As concerns about the fiscal affordability of the wage bill have increased, the authorities are planning to reform public employment and human resource management to deliver more effective public services at more affordable cost. At the heart of these issues is a weak human resource function in the public sector, both in recruitment and promotion, weak performance orientation, and fragmentation of wage bill management responsibilities (WB, PER)

In 2018, almost a year after the start of reforms, budget spending rose substantially and reflected an increase in on-budget public infrastructure outlays and larger disbursements for social programs and rural development (WB PER). Public investment amounted to 5.2 percent of GDP in 2018, with just under half of it on-budget. Most off-budget investment funding in the last two years has come from IFIs and bilateral creditors that is off-budget. Lack of data allows only a limited analysis of the economic classification of government spending.

Figure 10 Economic Classification of General Government Spending

Source: IMF GFS

Consolidated government capital spending – both on-budget and off-budget – amounted to 5.2 percent of GDP in 2018. This is lower than the 7.7 percent of GDP average of regional comparators in the Caucasus and Central Asia and at the lower limit of the public investment level that the Growth Commission Report[[23]](#footnote-23) identified as a feature of fast-growing economies. The government capital spending is not always well-allocated across sectors. In addition to government investment, there is substantial investment by SOEs, most of which is financed by directed lending from the UFRD and the government. (WB, 2019)

The PER’s initial analysis suggests three main priorities for the government. The first is the need to increase public investment both to help repair existing infrastructure and to connect better urban and rural areas. Second, for investment spending to be efficient, the authorities need to streamline the institutional setting of public investment management and reduce the duplication of units for planning, execution, and monitoring. Public investment – using both public or private finance – should be undertaken only if a project provides value to society, it is affordable to the taxpayers and users, and the operation is sustainable once the asset is operating and private investment is not available. Third, all off-budget investment spending must be consolidated into the budget, including government expenditures financed by international financial institutions and government guaranteed disbursements to SOEs.

Sectoral allocation of public investment

Uzbekistan’s public spending on agriculture is substantial – 1.8 percent of GDP in 2018 – with limited impact on farm incomes, sustainability, and competitiveness. Most funds are directed to the production of cotton and wheat, preserving a status quo rather than accelerating agriculture’s transformation into higher value-added activities that are part of food value chains. The mix of farm support instruments consists of subsidized credit, provision of irrigation, and inspections, the impact of which are largely offset by the lack of other programs and low – although substantially increased of late -- state procurement prices for cotton and wheat (WB, PER).

Figure 11 Public Expenditure by function

Source: ADB, 2020.

Education is one of the priorities of the socio-economic development and political transition in the country. Uzbekistan’s education spending as a share of GDP is one of the highest in the world. Government education spending amounted to 5.4 percent of GDP in 2017 and 5.9 percent in 2018 (check in graph), more than in countries with similar incomes, regional peers, and the OECD. About a third of the government budget is dedicated to education, with most of it focused on primary and secondary education. Uzbekistan has a significant number of (technical) colleges and at present they are not meeting the demand of the modern labor market, with serious criticism directed at the higher education sector as well. Allowing more private tertiary education institutions could help achieve better outcomes with same level of overall public expenditures on education. The U.N. Education Index ranks Uzbekistan 78th-80th out of 188 countries with an index of 0.71.

Government spending on health in Uzbekistan is not unlike that in lower middle-income countries and the average for the Caucasus and Central Asia. Both as a share of GDP (2.2 percent) and as a share of budget expenditures (less than 8 percent), health outlays are modest. Spending more and better on health will be important to boost human capital.

Spending on environmental protection is increasing, but remains very low at 0.05% of GDP (Figure 11). Uzbekistan uses earmarked environmental funds to support environmental activities. All Funds’ resources are spent exclusively on current expenditure (check). The fragmentation of the environmental sector and the frequent reorganizations in the ministry of environment have contributed significantly to the challenges with adequately financing priority environmental programmes (OECD, 2011). Internationally-recognized issues, such as climate change and the green growth initiative and the direct involvement of ministries of finance and economy at the forefront of these processes, have helped raise the profile of environmental authorities. Better expenditure planning and management practices can support the Ministry of environment to compete for budget resources. Demand for improved expenditure management practices can effectively be created and is a responsibility of both decision makers but also citizens’ and grass-root organizations. Donors also have a crucial role to play in supporting such initiatives.

One of the five main areas of critical institutional reform areas identified by the Concept (2020) involves strengthening the social security system and social protection available to vulnerable groups. Policy intentions involve reforms of the state pension system and the payroll fund for civil servants; improvement of the social safety net and social allowances; simplification of access to insurance against short-term unemployment; etc. Social protection and pensions: Financing social protection from general revenues is an appropriate channel to consider given high informality.

State Owned Enterprises/privatization

State-owned enterprises dominate economic activity in Uzbekistan and receive oversized government support. While explicit on-budget subsidies to SOEs are modest amounting to 1 percent of GDP. On-lending by the state-owned banks (SOBs) subsidized by the UFRD and the government amounts to about 4 percent of GDP a year. Quasi-fiscal losses of the SOEs amount to at least 6 percent of GDP. These are combined with tax expenditures for the benefit of SOEs of about 6 percent of GDP, resulting in fiscal support to government-owned enterprises that is more than a third of consolidated government spending and which are not included in the budget. This large share of fiscal support to SOEs reflects the government’s support to capital-intensive industry that generates little employment and foreign direct investment.

The Government’s “Program of transformation of state enterprises and other entities with majority state ownership” highlighted the following problems related to SOEs: “(i) participation of government officials in management bodies of SOEs resulting in conflicts of interests, (ii) lack of a well-functioning system of management of the investment process in SOEs, (iii) non-transparency of SOE governance and lack of regular analysis of their performance, and, (iv) inefficiency of the system of education of staff and management of SOEs, particularly in the area of corporate governance.”

Furthermore, financial discipline of the SOEs is poor and is also reflected in periodic accumulation of inter-enterprise arrears and restructuring of their obligations to the state-owned banks (SOBs) and the government. Such government support and the economy-wide low input prices for SOEs distort the structure of the economy, the allocation of capital and labor, and fiscal revenues. About 90 percent of SOEs are monopolies in their respective industries and with regulated prices, they do not have proper incentives to improve operational efficiency. However, investment by some SOEs is often funded from the budget under the public investment program. This includes investment in railroads, electrification of railways, purchases of aircraft, and others.

To address these challenges, Uzbekistan has taken initial steps to modernize SOE governance and management, such as corporatization of some SOEs. A first important step requires putting the financial support to SOEs and the SOBs on the budget to allow the government to understand better the trade-offs in the reform process. Additional critical reform steps include imposing hard budget constraints and better governance and financial reporting of firms, increasing output prices to at least cost recovery levels, and allowing private entry and growth. SOEs’ performance depend critically on the existence of a market environment as well as enforced management incentives.

Many non-financial SOEs (examples?) provide goods and services to consumers or other SOEs at below cost recovery prices set by government without compensating budget subsidies. The government also mandates SOEs to carry out unreimbursed activities that are not in their core business area, such as construction of kindergartens, sports or health facilities, among others. Therefore, as corporate restructuring proceeds, explicit fiscal support to the poor or vulnerable will need to replace support often provided through SOEs, including through prices below cost recovery.

Reforming the SOEs while rationalizing this extensive support will require a determined yet judicious approach, coupled with improved social protection for the vulnerable: To provide room for SOE prices to rise to cost recovery, SOEs to shed unproductive social activities, and for quasi-fiscal activities to be replaced by fiscal subsidies, the authorities need to scale up budgetary assistance to the poor. (better targeting) The mechanisms for such support could include direct subsidies, conditional cash transfers to targeted populations, and vouchers to eligible population groups for the public service provided.

Economies of scale or natural monopolies may justify the choice of SOEs above alternatives to provide public services or channel public investment. Such decisions need to be informed by objective assessments of the rationale for existing state ownership, considering the costs, benefits, and risks of state ownership, whether state-owned enterprises have clearly articulated objectives, and whether there are more-efficient means to achieve any noncommercial policy objectives.

Concessional finance

The general trend that emerges from the latest available OECD data on international public finance flows to Uzbekistan is in line with other LMIC countries (Figure 12). As Uzbekistan's per capita income increases, its mix of development finance, including concessional and non-concessional loans from different sources, has gradually shifted away from ODA grants to ODA loans[[24]](#footnote-24). Multilateral development banks have become increasingly important providers of these concessional and non-concessional loans[[25]](#footnote-25) (Figure 13).

Figure 12 International Public Finance

Source: OECD, 2020.

Official Development Aid

ODA flows have increased. This was driven by ODA loans. ODA grants have remained stable. ODA has been especially growing following the election of President Mirziyoyev and his initiation of important societal reforms. It has also engaged in more bilateral programmes and has developed a very good relationship with the multilateral lenders (WBG, ADB and EBRD). Following the election of President Mirziyoyev, DAC countries have intensified collaboration with Uzbekistan and have emerged to the most important donor group in the last two years.

Figure 13 Providers of ODA

Source: OECD, 2020.

Over the period 2013-16 Uzbekistan has attracted similar levels of ODA as its neighboring countries (Figure 14). The onset of the political opening and major economic reforms since 2017 coincides with larger ODA inflows than its neighboring countries.

Figure 14 Regional ODA allocation

Source: OECD, 2020.

During the period 2010-18 ODA has been relatively well spread across multiple sectors (Figure 15). There is a balance between productive sectors, such as energy and water & sanitation, versus social sectors, such as education and health. The energy sector has attracted 18% of total ODA. The relative priorities of donors seem to have shifted lightly over the period 2010-18. ODA to the energy sector as well as to the banking and financial services has noted a marked increase, whereas ODA to education and government and civil society has declined significantly in proportion.

Figure 15 Sectoral allocation of ODA

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Source: OECD, 2020.

Two major donors amongst DAC members are Japan and Korea (Figure 16). Since, 2014 these two countries have been the major donors in Uzbekistan. Both countries have very comprehensive collaboration framework with Uzbekistan and have been very active through their development agencies and diplomatic service. Germany is a major donor amongst the European countries, but marks a decreasing trend.

Figure 16 ODA providers

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Source: OECD, 2020.

Amongst the multilaterals, the World Bank and Asian Development Bank are the two most important lenders. Since reengaging in 2008, the World Bank Group (WBG) has maintained a two-track approach. Under the first tier, the Bank has provided support for improving infrastructure efficiency and access to social services through lending and advisory services. Under the second tier, support for the Government’s competitiveness and economic diversification agenda has focused on policy dialogue and technical assistance. Since 1995 the has provided 70 loans totalling USD7.4 billion, including two private sector loans totalling USD 225 million and technical assistance of USD 87.3 million. In the medium term, ADB assistance will focus increasingly on policy support and capacity development as well as explore direct investments in the private sector and public–private partnership opportunities to modernize infrastructure as a priority for sustainable growth.

The EBRD and IsDB are slowly increasing their engagement, but remain relatively smaller players, according to the latest available OECD CRS data. To date, the EBRD has invested EUR 1.3 billion through 70 projects in the economy of Uzbekistan, focusing on improving access to green finance and developing the financial sector. The IsDB focuses on the development of the Islamic financial products, pending the full engagement of the Government.

Saudi Arabia, Kuwait and Turkey are the three largest non-DAC donors. Their total ODA remains marginal, but marks an increasing trend. ODA from Russia, being the country’s main trading partner, is surprisingly absent. As an Islamic country, Uzbekistan has a great potential to explore further Islamic finance and engage better development agencies in the Islamic countries, especially in the Arabian Gulf (Saudi Arabia, UAE, Kuwait and Qatar).

Close to 90% of all ODA during the period 2015-18 was channeled to the public sector (OECD, 2020). Civil society received 5% of total ODA and Public-Private Partnerships only 2% over the same period. Project aid is by far the preferred aid modality and is disbursed off-budget.

In addition to the lack of clarity on the volumes of donor environmental funds, there are a number of other challenges in managing donor aid. Audit, control and reporting procedures for regular budget and donor funds are different? In addition, donors support is not always predictable at the time of the annual budget/MTEF preparation process (OECD, 2011).

The latest OECD data highlights relevant trends Uzbekistan would need to consider maximizing its use of international concessional finance in a context of increasing competition for limited ODA. Overall net ODA flows from DAC members decreased in 2017 and preliminary data show they also fell in 2018, standing at USD 147.2 billion and USD 143.2 billion respectively compared to USD 147.6 billion in 2016 (2017 prices). Half of DAC members have adopted new policies and strategies which identify how members will contribute to achieving the Sustainable Development Goals in developing countries – both directly and by addressing global challenges – while also serving their national interests in areas such as trade and security. DAC members are increasingly funding multilateral and global entities to address global challenges and public goods, as well as using multilateral channels to directly support country programmes. Finally, the share of ODA provided in non-grant form – as loans, equity or private sector instruments – has increased for DAC members over the last decade, rising from 11% of gross bilateral ODA in 2008 to 18% in 2017. Funding for gender equality is at an all-time high, but remains inadequate[[26]](#footnote-26). ODA can also play an important role to mobilize additional private finance. USD 152.1 billion was mobilised from the private sector in 2012-17 by official development finance interventions, increasing over the period.

Other Official Flows

Main source of OOF in the observed periods were the international multilateral organizations, notably regional development and global development banks (ADB and WB, respectively) (Figure 17). There are more opportunities to be explored, especially in line with the Government efforts to create a more competitive and proactive economy that will be well-integrated into the international economy. It is expected, as Uzbekistan progresses with its economic and social reforms, that the official assistance will be channeled through OOF, which would support economic collaboration and facilitate trade with the major trading partners. In the figure below OOF has already been growing from 2011, albeit with some volatility, especially in the recent years.

Figure 17 Other Official flows by source

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| --- | --- |
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Source: OECD, 2020.

Figure 18 Sectoral Allocation of Total Concessional Finance

Source: OECD, 2020.

The structure of OOF in Uzbekistan[[27]](#footnote-27) suggests that it is linked with the specific intervention multilaterally supported projects. OOF has much greater potential in Uzbekistan than it has been utilized until now, and the Government should facilitate the decentralized access to OOF instruments. Better co-ordination between ODA and OOF supported projects, may ensure that the synergy will yield the better access to development financing and ensure the higher efficiency and effectiveness in attracting the overseas development resources.

Climate Finance

There is potential for ODA to more effectively support Uzbekistan financing its environmental priorities. DAC members are investing increasingly in the environment and adapting to climate change. In 2017, a third of bilateral ODA from DAC members (USD 40.1 billion) supported the environment and a quarter (USD 30.7 billion) focused on climate change. ODA that is channeled by DAC members through multilateral development banks, for example through capital replenishments, plays a key role in financing major infrastructure and investment projects for climate adaptation and mitigation.

According to the RIO markers, the share of climate finance within total bilateral ODA commitments is relatively small and on a downward trend in Uzbekistan (Figure 19). Except for 2014, where it peaked at 64%, the average share of climate finance commitments hovered around 20% since 2010. The peak in 2014 is due to the commitment by JICA to finance a natural gas-fired electric power plant, valued at USD 655 million[[28]](#footnote-28).

Figure 19 Total bilateral ODA commitments with environmental objectives

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| --- | --- |
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Source: OECD, 2020.

The Uzbek government and its international development partners are actively promoting both small-scale biogas and hydropower and large-scale solar power and solar water heating. The European Union supports several climate-relevant projects in Uzbekistan. A sustainable development project in rural areas, implemented by GIZ, will share the experiences of food production and sustainability from EU rural and farming areas, and enhance living standards in six provinces. Uzbekistan also participates in several regional EU-sponsored projects and initiatives: FLERMONECA, INOGATE and CASEP. EBRD is supporting solid waste management and water reforms in Tashkent. Other climate-active international donors in Uzbekistan include UNDP, mainly medium-sized projects and small grants through GEF and the Adaptation Fund, focusing on energy efficiency in buildings. FAO supports projects on forests, agriculture and climate, and the World Bank and ADB cover – energy efficiency, renewable energy, rural housing, sustainable agriculture, climate mitigation, water supply, transportation and modernization of hydrometeorology services (ZOI, 2015).

The Green Climate Fund (GCF) is the largest multi-lateral financial mechanism for climate investments, and as such, presents an opportunity to catalyze much-needed additional finance. The national designated authority is the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan. Since 2016, only one project[[29]](#footnote-29), worth USD 19 million (mobilizing USD 68.8 million from the IBRD), was implemented. (+ 2 readiness activities.)

In Uzbekistan, the Ipak Yuli Bank has joined the EBRD’s pilot Green Economy Financing Facility (GEFF)[[30]](#footnote-30). Ipak Yuli Bank signed up as the first local partner, receiving a EUR 4.4 million EBRD credit line for on-lending to private companies. Loans will cover investments in green technologies, such as thermal insulation, photovoltaic solar panels, geothermal heat pumps and water efficient irrigation systems.

Uzbekistan has no Ministry of Environment, instead the main environmental authority is the State Committee Ecology and Environment Protection. The Hydrometeorological Service is the UNFCCC, GEF and GCF (?) focal point, and is the key climate policy agency in Uzbekistan. While UzHydromet is formally in charge of international climate matters, the Ministry of Foreign Affairs is a key player when it comes to international negotiations and decisions. The Ministry of Economy is the CDM focal point and is responsible for climate investment projects and coordinating the financial means of implementation. The State Committee on Ecology and Environment Protection is the key player in domestic enforcement of clean air legislation, including actions on industrial and mobile source emissions and waste recycling and minimization. The inter-agency council on climate change chaired by the Deputy Prime Minister enables high-level discussions and coordination on climate change and CDM projects. (ZOI, 2015)

Investments in energy efficiency and renewable energy sources are of high priority from both economic (decrease in costs for energy generation) and climate viewpoint (decrease in volumes of greenhouse gas emissions). The draft Long-term Strategy for low-carbon development identifies target indices for energy efficiency and the “Program of measures for transition to low carbon development” for the key sectors of economy (electric energy, thermal energy, housing and utilities sectors), which are the main contributors to GHGs emission in Uzbekistan. To this end, strengthening the institutional capacity and improving the legal framework in renewable energy sector and energy efficiency is critical to achieve the long-term sustainable development goals.

The republic successfully carries out measures for adaptation to and mitigation of climate change impacts, including implementation of Clean Development Mechanism (CDM) Projects within the framework of the Kyoto Protocol. Over the entire period of the CDM project activities in Uzbekistan, it has been put into circulation 15,229,536 tons of Certified Emission Reductions in CO2-equivalent (CERs), and attracted foreign private investments worth USD 120 million in 14 projects (BTI, 2018).

However, the scale of budgetary expenditure on climate finance is unclear. To allow a more strategic use of domestic public resources towards financing Uzbekistan’s environmentally sustainable socio-economic development in line with its multiple strategic programs and plans requires identifying and tracking budget allocations that respond to climate change challenges. Undertaking a systematic qualitative and quantitative analysis of a country's public expenditures and how they relate to climate change, in the form of a CPEIR, could inform a more holistic and effective government approach towards mitigating and adapting to climate change. Through the realization of a CPEIR authorities could further explore the value of establishing a climate budget tagging system to monitor and manage its climate related expenditure year-on-year.

South-South Cooperation

South-South Cooperation (SSC) has only recently started to pick up speed in Central Asia, including Uzbekistan. Recently, the UN Office of South-South Cooperation (UNOSSC) together with UNDP assessed the water supply and sewage for the city of Chust (in the Fergana Valley)[[31]](#footnote-31). Similarly, in 2019, the Chinese initiated SSC in agriculture[[32]](#footnote-32). These initiatives are part of the Government’s Strategy for South-South Cooperation in Agriculture (2018)[[33]](#footnote-33). In the context of this Strategy Uzbekistan has signed several contracts and agreements with several developing (and developed) countries focusing mostly on knowledge sharing. With stronger regional engagement, it is likely that the triangular cooperation will also become more important, attracting international partners’ support for sectoral regional engagement. With the shifts in foreign policy of Uzbekistan, where regional cooperation and rapprochement has an important place, it is reasonable to expect that more regional projects will be launched.

Uzbekistan is a member of Economic Cooperation Organisation[[34]](#footnote-34) (ECO) and has initiated co-operation in the field of agriculture and the Regional Co-ordination Centre (RCC) for Food Security has been established (see: FAO, 2019). With the support of FAO, the Seed Sector Development has been promoted in ECO region. Similarly, a regional development programme on fisheries and aquaculture (supported by Turkey) has been launched targeting seven countries in the region.[[35]](#footnote-35) The programme ‘Locust Management in the Caucasus and Central Asia (CCA)’, supported by several development partners[[36]](#footnote-36), facilitates the knowledge sharing amongst the participating countries.[[37]](#footnote-37) Uzbekistan has also been active in IT sector collaboration with ECO counties. The Iranian Nanotechnology Initiative Council[[38]](#footnote-38) has initiated the collaboration with other ECO countries in 2008, to promote research and industrial application of nanotechnology in the member countries; and Uzbekistan has been one of the participating countries.

To maximize the developmental impact of SSC requires it to be aligned with the government’s national development priorities and ongoing development partners’ support. This requires centralizing all ongoing and planned SSC activities in a transparent and comprehensive public register, including information on scope, value, partners and alignment with government’s KPIs and nationalized SDG targets.

Private domestic and international financial flows

The contribution of private finance[[39]](#footnote-39) flows to a country’s sustainable development outcomes is critical through both the investments and recurrent spending it supports. Commercial actors small and large are a key part of all advanced economies and how they create jobs, develop skills, treat the environment, drive innovation and stimulate growth affect the development paths that countries may ultimately follow. The difficulty resides in the fact that governments can only indirectly influence the scope and magnitude of private investment in the country. Managing the trade-offs between attracting commercial investment, for example with incentives or relaxed regulations, while maximizing its sustainable development impact – the jobs created, skills developed, innovation spurred on, green growth generated and so on – is a challenge.

As a first step, understanding the scale and nature of private financing is critical for considering the role that different private actors can play and, from the perspective of government, what partnerships, policies and interventions are needed to realize those roles towards supporting sustainable development.

Domestic commercial investment

Domestic commercial investment is becoming an increasingly important source of development finance for Uzbekistan. In line with the country’s gradual transition to a market-led economy and the corresponding economic reforms undertaken commercial investment increased by a compound average annual growth rate of 37% between 2013 and 2018 (

Figure 20). Following decades of underinvestment, credit growth boomed in 2018, financing a surge in investment, peaking at 21.3% of GDP. Most of this credit went to corporations. Credit at preferential terms[[40]](#footnote-40) explained more than half of the credit growth in 2018. Across banks, state-owned banks contributed 45 percentage points to the 51 percent overall growth, highlighting the dominance of state-owned banks in credit allocation. A prolonged credit boom could exacerbate inflationary pressures and result in a potentially costly boom-bust cycle. With both domestic and external financing likely to remain plentiful, the authorities will need to exercise self-restraint to ensure macroeconomic stability.

Figure 20 Domestic commercial investment

Source: World Bank, WDI 2020.

Private external debt

Traditionally, the energy sector has been the major foreign credit borrower (Figure 21). Following the maturity of loans extended to the oil, gas and energy-related industry’s borrowers total external private debt stocks marked a slight decline in 2018 in absolute volumes. However, as a share of GDP, private external debt grew to 14% in 2018, up from 8.0% in 2010.

2018 also marks an incipient shift in foreign private debt composition. Whilst the oil, gas and energy sector’s foreign credits are in decline, the banking sector has recorded an unprecedented growth in foreign borrowings – 419.8 percent just from 2018 to the first part of 2019 (see: CBU, 2019). Telecommunication sector borrowing has also fallen in the last two years, whilst the textile sector borrowing has been stable. Other sectors (outside the individually mentioned ones) borrowing has been growing as well, signifying the possible diversification in the economic activity in the country. Agriculture does not feature specifically in the list, showing that there is a potential to explore further accelerated development of agriculture, which is one of the national priorities.

Figure 21 Private External Debt by Sector

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Source: Central Bank, MoF

Decentralized investment is very important for the realization of the investment plans in Uzbekistan. Just below ¾ of the total investment was done through ‘decentralized’ sources in 2017; where the domestic private investment (firms own, loans and other sources) counts for UZS 36,272.427 billion (out of the total of UZS 61,403.402 billion). Domestic private and public investment has covered over 85 percent of the total investment made in 2017.

The banking sector’s loan portfolio as a proxy of for the domestic investment activities has grown significantly between 2018 and 2019 – 52.5 percent; from UZS 153,222 billion to UZS 223,729 billion, respectively. Although the banking sector has the capacity to support the domestic investment, it is also claimed that it is bureaucratic and risk-averse, often pushing entrepreneurs and small businesses to look for the alternative private sources of finance on the informal lending market[[41]](#footnote-41).

Interest rates have also been relatively high, well above the inflation level, suggesting that loans from the domestic banks may have been overpriced. At the same time, since 2017 the Central Bank Refinancing Rate has been lower than CPI. The lending rates have been well above the central bank refinancing rate, suggesting that the commercial banks are enjoying a comfortable business margin (Figure 22). The difference between CPI and CB Refinancing Rate, also points out that in the 2017 and 2018 a credit expansion was supported strongly.

Figure 22 Major Banking Sector Rates and CPI, Uzbekistan, 2013-2019

Source: MoF, IMF Central Bank; Author’s calculations

There is a need to strengthen domestic savings. Due to past failures in the banking sector, public perception of the safety of their deposits in banks is poor with state-owned banks being preferred to private banks. Additionally, withdrawing cash from one’s account is often an onerous procedure requiring signatures from three departments. As such, those who do not receive their salaries via current accounts prefer to keep their savings in cash. This has the effect of disincentivising customers from banking any cash they do receive–leading to a clear separation of the cash economy from the banked economy (IFC, 2016). Introduction of a deposits protection scheme may have had a positive impact, but it has failed to generate the increase in the domestic savings. Also, the stability of national currency has also failed to contribute to the increase in domestic savings.

Foreign Direct Investment

FDI inflows during the past five years have been volatile. Following a decreasing trend over the period 2010-15, they then oscillated between 0.1% of GDP in 2015 and 3.2% of GDP in 2017. In 2017 FDI inflows peaked at USD 1.9 billion, slightly more than its previous top inflows of USD 1.6 billion in 2010 and 2011. This equates to only 77 USD of FDI per capita, while the average for CIS countries is 100-120 USD (GoU, 2020). It is necessary to increase the volume of capital investments and foreign direct investments for economic growth. In 2020, authorities expect to attract foreign direct investment in the amount of 4.0 billion US dollars, which will be directed to the implementation of large projects in industry, agriculture and infrastructure development (Citizen budget, 2020).

Figure 23 FDI inflows, Uzbekistan

Source: World Bank, IDS, 2020.

The country’s vast and diverse resource wealth is driving most of this resource-seeking FDI. In 2018, the State Committee for Geology put the sum value of all the country’s mineral and energy resources at USD 5.7 trillion[[42]](#footnote-42). Traditionally the energy sector has been the best performer in attracting FDIs, resulting in a regional imbalance of investments[[43]](#footnote-43). With the opening of the country, some other branches of economies may become attractive, such as agriculture, tourism. The Russian Federation, South Korea, China and Germany, and recently Canada are the major FDI investors. Korea shows particular interest in the development of financial/capital market in Uzbekistan, and it may be assumed that they would be interested not only in FDIs, but also foreign portfolio investments.

The inadequate level of attracting investments for modernization, technical and technological re-equipping has led to decreasing localization, a strong dependence on the import of components, and high cost of production, which in turn reduces the opportunities for the development of industries of an average technological level (GoU, 2020).

Portfolio investments

Data for (foreign) portfolio investment in Uzbekistan has been reported since 2016, and at present there is in fact – an outflow. In 2016, the outflow was just over USD -2 million, in 2017, USD -3.149 million and in 2018 it reached just over USD -13 million. At present portfolio investment has not been explored as a development finance flow and the policies around portfolio investments should be reviewed and legislation modernized. Uzbekistan’s planned large privatization programme is expected to drive portfolio inflows in the coming years as foreign investors may acquire equity securities, including shares, stocks and direct purchases of shares in local stock markets.

Remittances

It is difficult to estimate the total number of Uzbekistan’s migrant workers, but the number mentioned in the media has been between 2 and 3 million[[44]](#footnote-44), equivalent to between 7 percent and 10 percent of the population. The UN estimated the number to less than 2 million in 2012 (UNICEF, 2013). Although the total number of migrants may be disputed, the migration between the former Soviet Central Asian republics and Russia makes one of the top European migration corridors (IOM, 2018). At the same time, this corridor is one of the cheapest for the transfer of money from Russia to the country of destination (see: World Bank, 2018b). However, despite the positives, at the same time, this corridor has shown the higher level of sensitivity. During the recent Russian downturn (2014-2016) the transfers fell by 60 percent for Uzbekistan alone (see: World Bank, 2018b).

Remittances as a percentage of GDP data have varied annually ranging from almost 11.0 percent of GDP in 2013 to 4.6 percent of GDP in 2016 (Figure 25). With the economic growth in Uzbekistan and creation of local jobs it is expected that remittances will ultimately contribute less to GDP. Also, it has been noticed that Uzbekistan has been a destination for migrant workers from the neighboring countries, so the net remittances may be falling in the years to come. Historically, the outward migration to Russia has been closely linked with the current economic situation in Russia, and this will continue to be the case. As the Russian economy is largely energy driven, any shocks on the energy markets will have an adverse effect on the Russian economy which would contract and hence the demand for labor would decline, having a negative effect on the remittances to Uzbekistan.

Figure 24 Remittances inflows

Source: GoU

The Russian Federation, Kazakhstan, USA, Turkey and Republic of Korea have been the major countries from which remittances have originated in 2019. Although Russia is still by far the most important remittance originating country, the transfers from other countries is on the rise, notably the US and Turkey (Figure 26). Whilst in 2010, the transfers from Russia represented 84.3 percent of the total, in 2019 (first three quarters) it dropped to 77.3 percent. The abolition of exit visas in 2019 will most likely lead to even further diversification of migrant destinations.

Figure 25 Sources of remittances

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Source: GoU

Dimension 2: integrated planning and budgeting

This chapter explores the alignment between Uzbekistan’s planning and finance policy functions. It considers both opportunities for strengthening the connection between the annual and/or medium-term budget process with long-term plans as well as alignment across different finance policies such as the budget, private sector development, green development, etc. Stronger integration of Uzbekistan’s planning and financing processes can be a first practical step towards developing an integrated national financing framework and strengthening the country’s SDG financing architecture.

The GoU is pursuing a comprehensive set of structural and institutional reforms to advance the social and economic development of the country. In this respect, the authorities’ declared economic strategy is to make a gradual transition from a command to a market economy. Improving effectiveness and efficiency in the use of public resources can be regarded as a cornerstone of these reform efforts. Consequently, the GoU has adopted a long-term strategic approach to strengthening its Public Financial Management (PFM) systems, which is anchored in the 2007-2018 PFM Reform Strategy. Apart from guiding the Government’s reform efforts, the strategy has provided a framework for development partner support. (UNDP; 2016)

Development planning System

Long-term Development Vision

The new “Concept for Comprehensive Socio-Economic Development of the Republic of Uzbekistan until 2030” (further: The Concept) builds upon that framework to set out the strategic development priorities for the GoU until 2030: ensuring macroeconomic stability and sustainability of economic growth; increasing competitiveness and investment and export potential of various industries; creating enabling environment for development and protection of entrepreneurship; reducing tension in the labor market; as well as growing population income and downsizing low-income population groups. The Concept is aligned with the principles and targets of the Sustainable Development Goals of the Republic of Uzbekistan as determined for the period until 2030.

The Concept determines and justifies goals, priorities and objectives of medium- and long-term socio-economic development of the Republic of Uzbekistan, which serve as reference points for implementation of economic policy. The overarching goal is to improve citizen’s quality of life through attaining upper middle-income country status, according to the World Bank classification. This would imply tripling the dollar denominated GDP per capita by 2030 – to reach 4,538 USD vs. 1,533 USD (2018 baseline) and requiring an average annual economic growth of at least 6.4%.

The country’s current economic growth model, based on expanding existing factors of economic growth and low-value add commodity exports, is not suitable to achieve these sustained high economic growth rates until 2030. A business-as-usual scenario would exacerbate the energy deficit and water shortages as well as suffer from declining capital productivity, leading to a slowdown in agricultural and other sectors. Therefore, the GoU’s Concept proposes a scenario that “*transitions to the resource saving model of inclusive growth and envisages the creation of an environment for a significant reduction of energy and material intensity of products and capital intensity of economic development*”. This ‘*Inclusive Growth*’ scenario will be combined with the ongoing priority reforms activate innovation as the new growth factor[[45]](#footnote-45).

This declaration of the country’s long-term policy intention has profound implications for the distribution of financial and investment flows in support of the national economic reforms. The priority is to *increase finance’s contribution to expansion of productive employment and addressing other social issues to support a significant improvement in the quality of the economic growth. This involves capacity building for state institutions in terms of limiting corruption and shadow economy, strengthening property rights, development of commodity markets and environment for fair competition, and adoption of environmental and resource saving standards*. Driving innovation requires redirecting financial and investment flows from mining industries and traditional infrastructure towards large-scale modernization of existing production facilities aimed to create a modern, innovation-based national system. Investment in science, technology, and human capital including modernization of the national education system will have to substantially increase.

As such, the Concept represents a fundamental building block towards establishing an Integrated National Financing Framework (INFF) towards achieving the SDGs. It provides a comprehensive and ambitious, long-term, shared vision for the country’s socio-economic development path. For it to be effective in guiding the financing of Uzbekistan’s national development objectives requires it to be articulated at a sufficiently high level to remain relevant over the longer term, until 2030, while at the same time specific enough to ensure their feasibility and effective implementation by politicians, policy-makers and state bureaucrats. These specificities can be developed into separate, lower-level plans or policy documents.

As it stands, the Concept seems to miss critical elements to clarify its operationalization over time:

1. it has no dedicated financing strategy that estimates the cost of realizing the vision along with how authorities expect different development finance flows, public and private, to cover these costs; along with a monitoring mechanism to monitor the contribution of development finance flows and instruments towards the country’s development outcomes;
2. the exhaustive list of policy intentions and corresponding reforms don’t include a sense of prioritization, nor sequencing for implementation. The current breakdown of the Concept into three phases with distinct outcome is limited for a more practical implementation;
3. it doesn’t assign administrative responsibilities nor a sense of division of labor for undertaking, guiding and overseeing the required reforms;
4. there is no performance monitoring mechanism, with its corresponding key performance indicators and oversight mechanism.

While the Concept aims to serve as a national sustainable development strategy through 2030, it only mentions he SDGs once. The SDGs, being a comprehensive, integrated and comprehensive development agenda, provide a unique and tested framework to: (a) align Uzbekistan’s short-term market and governance reform priorities with the longer-term focus of the 2030 Agenda; (b) contain Uzbekistan’s nationalized SDG targets and indicators, as well as relevant baseline and terminal values; (c) be linked to the national budgetary framework and relevant sectoral and subnational development programming; (d) serve as a programmatic basis for national SDG reporting; and (e) to inform and strengthen the performance monitoring of the Concept (UNDP, 2018).

How was this Concept elaborated? How inclusive is it? Is this the shared vision of multiple stakeholders, or a government/presidential view no the future? Will this ‘survive’ political changes/elections? Has the NDS been evaluated?

National Development Policy Framework

Uzbekistan’s medium-term national development policy framework is articulated in the “*Action Strategy on Five Priority Areas of the Development of the Republic of Uzbekistan for 2017-2021*”. The Action Strategy focuses on five priority areas: 1) public and state (political) infrastructure/architecture; 2) rule of law and judicial/legal system; 3) economic development and liberalization; 4) social sphere development, and 5) security, inter-ethnic harmony and religious tolerance (with the balanced foreign policy). Each priority areas are assigned a number of objectives/sub-objectives which made them (areas) more tangible and easier to monitor. This framework is fully aligned with and contributes to the SDGs.

Some line ministries have engaged in strategic planning and have produced mid-term plans, but the process is yet to be completed. Although the National Development Strategy (2017-2020) has set out the general targets to be achieved, sectoral and sub-sectoral strategies (with financial implications) are still missing and the central government ministries, as well as sub-national level governments have to ensure that there is better coordination and linkage between annual budgetary process and long-term strategy orientation.

How is the planning process organized and what is the role of line ministries and non governmental actors?

Annual Budgeting process

The budget setting process is controlled by MoF, which sets the stage and the pace, in line with the requirements stipulated in the legislation on budget. It requests budgetary users, both at national and sub-national levels (the Republic of Karakalpakstan, districts, the City of Tashkent) to submit their budgetary requests. Heads of sub-national units are authorized to decide on the process as to how the budget requests will be developed leading to the budget drafts being prepared. Based on the requests, MoF will prepare a draft budget and submit to the Cabinet of Ministers by September 15th.

MoF will, with the other responsible central government agencies, prepare a comprehensive draft Budget Message, including: 1) Main results for social and economic development for the previous year and forecasts on budget implementation for the current year; 2) State budget implementation report for the previous year and the draft State budget for the next year; 3) Draft of main guidelines for budget and tax policies for the year; 4) Comments to the guidelines for the budget and tax policies for the ensuing year; 5) Information on the internal and external public debt and respective expenditures; and 6) Draft State budget for the fiscal year. Since 2019 budget the Budget message has been clearer, included more financial information and addressed public debt and fiscal deficit (see: IMF, 2018). The budget document is presented using administrative, economic and functional classifications.

The Cabinet, chaired by the President, approves the State Budget and related documents[[46]](#footnote-46), after which it is sent to the bi-cameral Parliament for deliberation and approval. This is a relatively new practice in Uzbekistan as historically the State Budget was introduced as a Presidential Decree. In the case of the Budget Law, the Account Chamber may also propose the amendments to the Government Draft Budget.

The Committee on Budget, Banking and Finance[[47]](#footnote-47) is a major coordinating committee in this process. The Committee collects the opinions of the various parliamentary groupings and MPs, including other Committees of the House, as well; and produces the final report on the budget, to be considered by the Legislative (lower) House. Once approve, budgetary users can make necessary adjustments up to four times a year, but within their total appropriation and upon approval of Parliament. In practice, Parliament does not have a close oversight of in-year amendments to the approved budget. Overall, the present budget formulation process is estimated to produce the desired results (WB, 2019).

The Law on Parliamentary control has introduced a much stronger role for the Parliament, which is tasked to question and examine the budget from the moment it is sent to the Parliament, and then monitor the execution of the budget. The Parliament still has the right to instruct the Cabinet of Ministers, notify the president and/or any other public body regarding their work, as well as to summon any of the public officials to make presentation before it.

From 2020 onwards, the public and the media will be allowed to attend both the national and regional level budget consultations from 2020. Once the Parliament approves the budget, the MoF publishes a summarized citizen’s budget for the public. The full version is not disclosed publicly.

Budget performance

Despite significant progress made in strengthening PFM systems in Uzbekistan, there remains wide scope for improvement. The latest PEFA (2019) exercise revealed that the multi-year focus in fiscal planning is non-existent, negatively impacting Macroeconomic and Fiscal Forecasting and Fiscal Strategy. This weakness is worsened by the absence of establishing ceilings in the budget preparation process even for the next budget. The PEFA further notes that intergovernmental fiscal relations are not fully determined by a transparent and rule-based transfer system. As a result, the rating related to the specific service delivery performance indicator, which can demonstrate the efficiency with which services are delivered is not performing well, as is that of Public Asset Management, which does not show enough transparency to what is effectively maintained by the government. The Budget Circular does not provide the spending ceiling, and it is more technical than policy-driven documents.

Ongoing PFM reforms

The latest strategy on PFM reforms covers the period 2018-2028, which is mainly based on improving the efficiency and effectiveness of the Government of Uzbekistan, through the introduction of program budgeting and its use to improve the quality of services provided. Programme Budgeting should be implemented in 2025, following the implementation of a new State Budgeting System (SBS). The development partners (ADB, World Bank, IMF, UNDP and EU) are actively contributing to the implementation of the reforms through development projects, budget support operations, technical assistance to build capacity in areas such as mid-term budget framework, internal audit and procurement.

Moving towards medium-term budget planning is one of the intermediate objectives of the Government’s PFM Reform Strategy. However, moving directly to program/ performance budgeting without prior introduction of medium-term budget planning may be challenging. Programs[[48]](#footnote-48) usually encompass several years and achieving them therefore requires mechanisms that allow strategically planning and making resources allocations over the medium-term, while considering the future impact of present resource allocation decisions (UND, 2016). Multi-year fiscal forecasts are not explicitly prepared as part of the budget process and there is no Medium-Term Fiscal Framework, nor budget ceilings. Until 2019 the Budget covered one year, whilst from 2019 Budget a mid-term perspective has been introduced with data for the next three years.

A precondition for the move to program-based budgeting (PBB) is an understanding on the part of key policy makers and budget participants of the value of making the budget more policy relevant, making it less an instrument of control and more of one geared to achieving policy objectives. This would represent a significant culture change in the administration along with building capacity of mid-level civil servants. Furthermore, authorities would have to introduce a program classification[[49]](#footnote-49), as envisioned in the PFM Reform Strategy. To reflect this, the program structure should be anchored in a wider strategic view that describes how government operations contribute to the achievement of nationwide objectives (UNDP, 2016).[[50]](#footnote-50)

The authorities have also initiated reforms of public investment management. This includes shifting the public investment program from an annual to a multi-year perspective from 2020 and developing new procedures for project selection for the upcoming three-year investment program for 2020-2022. However, the development of the Investment Program remains separated from the regular state budget preparation process, essentially delinking responsibilities for capital expenditure from maintenance and other current expenditures (WB, 2020).

The GoU’s interest in further strengthening central oversight may hinder parallel efforts to increase efficiency of public service delivery through introducing PBB. Public managers should be held accountable for the achievement of stated objectives and not for the mix of resources used for attaining those objectives. Introduction of a performance management framework, therefore, requires a fundamental restructuring of the PFM system, including enhancing of managers’ authority, flexibility and budgetary discretion and providing adequate incentives for them to adopt this new management style. Consequently, measures to further strengthen central input controls may conflict with the objective to increase performance of spending agencies (UND, 2016).

How will it be ensured that multi-annual development programs are adequately linked with and implemented through the annual budget process? What is the relationship between development programs prepared by line ministries and other development plans and strategies prepared by the Ministry of Economy?

Alignment between National planning, budgeting and financing

The latest PEFA (2018) exercise revealed that the process to allocate budgetary resources is not in accordance with government’s declared strategic objectives. The link between the annual budget and the government development strategy is weak. The lack of strategic multi-year programming tools at all levels of economic, budgetary and financial management hampers progress on more strategic allocation of resources. Medium-Term Development Frameworks in Debt Management strategy, Macroeconomic Forecasting, Macro-Budget Forecasts, National and Departmental strategies are still non-existent or at an early stage of development (World Bank, 2019). Increasingly the State Budget (in 2019 and 2020) has reflected sector priorities, institutional plans and agreed national priorities. Mid-term planning has been implemented gradually and from the 2024-2026 cycle the full mid-term budgeting should be in place.

Uzbekistan is undergoing major changes in the budgetary approval process. From the next budgetary cycle (2020-2021) the Parliament should, when discussing the Draft Budget, take into consideration the mid-term planning documents and take a longer perspective in assessing the annual budget proposal; but only from 2023 the mid-term perspective will prevail and will fully inform the annual budgetary process. The political control has been introduced over the entire budget-preparation and execution processes, but there is still relatively little political participation in linking the planning targets and resources needed for their realization.

Budget processes in Uzbekistan are quite centralized, fragmented and not directly linked to planning documents.This leads to challenges in assessing the impact of the policies as well as identifying budget planning priorities. With the planned introduction of programme budgeting from the 2023 budget cycle the situation should improve and support more effective and efficient public spending, with higher impact.

Dimension 3: private-public collaboration

Achieving the SDGs will require investments and actions from a range of public and private actors. Mobilizing finance from actors beyond government will require a policy and enabling environment that is conducive to sustainable, inclusive development of the private sector and promotes the strategic investment of private finance.

This section looks at looks at how public and private actors collaborate around the 2030 Agenda and how they act to promote not just economic gains, but also sustainable, inclusive private finance. It identifies opportunities to enhance the policy environment, strengthen incentives and deepen public-private collaboration in pursuit of this objective.

A growing private sector is essential for future growth job creation, and a solid tax base that will help support the transition from a state-dominated economy to one driven by the private sector. Informality is a top two concern for businesses in Uzbekistan. Further streamlining the regulatory environment and decreasing costs of complying with business regulations and reporting should be high on the reform agenda (EBRD, 2019).

Policy environment

Commercial investment and entrepreneurship

The main obstacle that holds back private sector growth is the strong presence of the state in the economy (EBRD, 2019). Encouraging efforts are under way by the authorities to reduce the role of the state. From almost 100 percent in the 1990s in 2018 private ownership dominated with over 90 percent of the enterprises being in private hands, producing over 80 percent of industrial output. However, about 40 percent of economic activities are undertaken by the state-owned enterprises (SOEs), mainly due to the state participation in the mining industry (see: World Bank, 2018a). In the case of retail industry, all companies are in the private hands. This omnipresence of the quasi-state sector across Uzbekistan’s economy complicates distinguishing the sector’s contribution to commercial investment from the contribution of Uzbekistan’s domestic private enterprise sector. Furthermore, it creates unfair competition for the country’s nascent private sector and foreign investors.

SMEs are the major driver of economic growth and have contributed not only to the creation of new jobs, but also reduction of poverty in the country. Currently, SME contributed to about 60 percent of Uzbekistan’s GDP, compared to 30% in 2000. They represent 90% of all business entities and provide 75% of total employment, with the majority (over 60 percent) of these jobs in rural areas. SMEs contribute to the more sustained regional development agenda and contribute to the promotion of sub-national government units and their economic development efforts.

Uzbekistan has, over the last few years, been taking actions to develop an effective framework for supporting entrepreneurship and small business development. Over 50 percent of the Presidential decrees issued have dealt with the promotion of entrepreneurship and small businesses.[[51]](#footnote-51) The overall system of licenses and permits has been simplified to support the start-ups[[52]](#footnote-52) and the Office of the Business Ombudsman[[53]](#footnote-53) has been created to oversee the rights of both domestic and international businesses and investors. New government bodies have been established and provided budgetary resources to support the entrepreneurship development.

In the case of regional development, a focus on the family businesses has been promoted under the programme ‘Every family is an entrepreneur’.[[54]](#footnote-54) The Programme is implemented partly through the commercial banks offering credits up to 1,000 minimum wages, with duration of up to 3 years (exceptionally 5 years), prudential interest rate of 8 percent and grace period of between 3 and 6 months (exceptionally 2 years), to have the business organized and running. There are also other measures instituted to support entrepreneurial culture and innovation. Some have been provided through the Chambers of Commerce, whilst the others through the individual government department programmes. The President has particularly requested the local government units to promote entrepreneurial behaviors and support small business development.

Development partners also focus their support on promoting entrepreneurship[[55]](#footnote-55). They set up an SME funding agency: the State Entrepreneurship Development Support Fund, which ensures provision of financial assistance to business entities through introduction of new tools of state support. The mechanism for microcredit allocation to newly registered individual entrepreneurs and non-corporate family business entities has been simplified.

Limited access to credit for SMEs

Access to finance for private companies, especially SMEs, has been constrained by state-directed lending (mostly to SOEs) and insufficiently developed financial services and capital markets. State-directed lending is largely carried out via state-owned banks. The government provides concessional funding to banks via Fund for Reconstruction and Development (FRD) loans, loans from the treasury, deposits at the commercial banks, and recapitalizations. Banks lend those funds to SOEs and to the private sector to achieve specified policy goals (IMF 2019). State banks account for about 85 percent of banking system assets and their main function is to support government investment and development plans. The authorities are planning to reduce distortionary directed credit and other nontransparent support to state-owned enterprises. The Decree facilitating the operations of SMEs has also stipulated that the state/government bodies should not interfere in credit policies of the commercial banks.

At around 29 per cent of GDP, credit to private sector / penetration is moderate compared to the regional peers. Uzbekistan is ranked 55th out of 190 countries in Getting Credit according to the World Bank’s 2018 Doing Business report. Cutbacks on government funding of banks could create funding gaps if the banking system does not manage to tap alternative and more diversified funding sources over the medium term. Banks would be limited in their ability to intermediate the economy’s savings to fund investment projects and support more inclusive growth.

Commercial banks and other lenders generally view SMEs as high-risk borrowers. Consequently, small companies often face high interest rates and collateral requirements that they are unable to meet (OECD, 2013). Because of this high cost of finance most households and firms, rather than using formal finance, save and borrow informally, and few use digital finance products (Ahunov, 2018). Firms report that complex application procedures and high collateral requirements are the second and third most important reasons for not using formal finance. Financial inclusion is therefore constrained on the supply side. Accessing business finance is particularly challenging for women, young people and individuals in Tashkent and southern Uzbekistan (EBRD, 2019). Large disparities in the country’s regional development affect, among other issues such as employment and access to infrastructure and electricity also access to finance. Whilst access to finance for starting new businesses compares relatively favourably to other countries in Central Asia according to Gallup Survey data, they are characterised by substantial within-country differences.

Microfinance is underdeveloped

According to a 2016 study by the IFC the microfinance sector in Uzbekistan is underdeveloped, fragmented, and unsustainable. There are only 29 Microfinance institutions in the country, and these have a very limited level of penetration and access to funding. Most of the MFIs are also small, having fewer than 1000 customers, and none have branch outlets. Despite of the recent growth in demand for microcredit, which can be explained in part by the closure of credit unions in 2011 and the gap it created in services for small and rural borrowers, microcredit organizations account for only 10% of the overall micro credit portfolio (where 90% is provided by three commercial banks).

Access to funding by MCOs is very limited, volatile and open to market disruptions. MFIs in Uzbekistan are not allowed to raise deposits. Consequently, all funding stems from shareholders’ resources. However, these have proved to be limited and volatile over time thus hindering the growth and stability of the sector.

Mobile money may increase financial inclusion

Banking penetration is medium with 41 % of the population having access to an account. Much of penetration is in the form of salary accounts which are accessible through ‘online’ cards. The government and the central bank are pursuing a policy of reducing the cash in the system by encouraging the payment of salaries into accounts and cashless payments for utilities, taxes, mobile recharge, and other services. The population is showing increasing interest in technology adoption as evidenced by the Increasing smartphone penetration and take up of electronic payments. As such, there is potential to work with various players to hasten the move from cash payments into cashless payments. These factors provide an opportunity for expanding digital financial services (IFC, 2016).

The central Bank is the regulatory body responsible for the promotion of Digital Financial services (DFS) in Uzbekistan. Its objectives are to organize and provide effective payment systems in Uzbekistan; licensing and regulation of banking activities and reducing the level of cah in the economy. All institutions facilitating payments in the country require a payment service provider license from the Ministry of IT. The existing regulation and licensing regime does not allow for agency banking, e-money, or P2P transfers. However, the central bank is encouraging all other payments to be made via non-cash means. This includes services such as utilities, mobile recharge, taxes, and others (IFC, 2016).

MNOs see mobile money as an opportunity for growth and revenue generation. However, from a regulatory perspective, they are unable to provide this service. The bigger MNOs have begun discussions with banks about potentially devising projects to include the unbanked. However, opening accounts is problematic for MNOs as regulation requires that bank staff identify the employee. MNOs do not have the license to do this.

Shallow capital markets

Improving Uzbekistan's capital markets are crucial to financing the ongoing campaign of economic reforms. Presently, Uzbek companies are entirely dependent on bank loans to finance new investment, making it difficult for major enterprises to raise the significant funds necessary for much-needed upgrades to fixed capital. Revitalizing the stock exchange may support the country’s largest enterprises to issue securities in order to meet the financing requirements of their own transformation plans.

The Tashkent Stock Exchange is currently dominated by state-owned banks, which are legally mandated to list shares. These shares account for 86 percent of the trading stocks on the exchange, limiting liquidity and the appeal of the exchange for foreign investors, who hold just two percent of the shares. Its market capitalization is a mere 5.3 percent of GDP, compared to 21.7 percent in neighboring Kazakhstan and 54.2 percent in Vietnam. In January 2019, authorities created the Capital Markets Development Agency (CMDA) with the aim to triple the market capitalization from the current level of USD 5 billion to USD 15 billion by 2025. The CMDA’s development strategy calls for both an increase in the minimum percentage of free float for listed companies, and envisions a new wave of initial and secondary public offerings related to the government's broader privatization drive. The combined value of the privatization of ten major state enterprises, drawn from the energy, agriculture, mining, and manufacturing sectors, is estimated at USD 13 billion. The agency is also seeking to encourage the development of local retail investing and pension funds to ensure that Uzbekistan’s working and middle classes can participate in the expansion of the stock market. The main challenge to realizing this overhaul resides in limited human capital beyond the 50-staff office of the CMDA.

Corporate Social Responsibility

At present, data on domestic corporate giving is not available. However, the potential is there, especially as the Uzbekistan’s firms are maturing and advancing towards the international markets. There is a need for a more stringent reporting, including reporting on CSR activities. At present CSR activities are still voluntary in Uzbekistan. The Chamber of Commerce could play a crucial role in promoting CSR and lobbying for even better tax treatment of CSR activities.

In Uzbekistan, it seems, CSR is understood in a somewhat narrower sense, as responsibility to the own employees and the community (Ayupov and Komilova, 2010). In those terms fair treatment, equal opportunities, proper treatment, and good working conditions are obligations of the employer who wants to demonstrate that it is involved in CSR activities. Similarly, the companies are also engaged with the community and may provide services, organize activities, fund community activities, or fund acquisition of a property for the benefit of the community, etc. CSR is not yet embedded into the company’s operating business model. Whereas in the West companies engage in CSR in order to gain social legitimacy within the society they are operating, in Central Asia and Uzbekistan there is a need for strong justification in order to promote CSR. There is no strong stakeholder influence or supply chain requirements that would motivate them to engage in CSR[[56]](#footnote-56).

The tax legal framework allows companies to engage in corporate giving, providing some tax advantages. Charities may claim a tax deduction up to 75 percent of the granted sponsorship, but no more than 15 percent of the total amount of the giver’s annual taxable profit. The limit of up to 35 percent of the taxable profit is set, if the support is for the ‘national treasure’ of Uzbekistan. The limit presented by Law is fair and allows the corporate givers to optimize their tax dues. This should motivate companies to be more engaged with the communities and support the community development.

The business community can also play an important role in supporting and improving the effective implementation of the Government’s recently enacted anti-corruption policies, which include ‘business integrity’. Compliance practice at national companies and in small and medium business remains underdeveloped, anti-corruption tools are implemented by multinational companies, foreign-equity firms or large state-owned enterprises. Uzbekistan should develop methods of incentivising businesses that are prepared to introduce anticorruption instruments. The newly established agency of the business ombudsman should be built up further, as this office may become an efficient mechanism for the protection of the rights of entrepreneurs. The OECD (2019) also recommends supporting the active involvement of the business community, through business associations, in ensuring business integrity.

Increasingly, the multinational companies operating in Uzbekistan have launched several society-centred programmes as a part of their CSR activities. Coca Cola and British American Tobacco (BAT)[[57]](#footnote-57) are leading at present, whilst the American Chamber of Commerce (Amcham) in Uzbekistan has established a separate CSR Committee.[[58]](#footnote-58) With creating a more tax enticing environment, the CSR activities may grow even further and this may be another revenue stream, especially for the small and medium-size projects designed and implemented by the local communities. At present, due to the lack of compulsory reporting on the CSR undertakings it is very difficult to estimate the volume and impact of CSR in Uzbekistan. It is a new way of corporate engagement and many even international companies at country level have not yet defined their corporate political strategies and activities. This is expected to change, as their operations in Uzbekistan grow both in volume and importance and the development of the third sector may also provide a platform for them to better and more meaningfully engage with the local communities and support local development activities.

Foreign Direct Investment

Since 2016, Uzbekistan has been pursuing ambitious reforms as it opens up to international investors. The country was listed among World’s Top 20 most improved economies for ease of doing business2 in the World Bank’s Doing Business 2020 report. Its ‘Doing Business’ ranking improved significantly to 69th in 2020[[59]](#footnote-59), compared to the 164th place in 2010. Uzbekistan offers all the incentives commonly used around the world except investment allowances, investment tax credits, and R&D incentives. Uzbekistan does provide incentives for “Innovative Techno-parks” with the purpose of encouraging investment into innovative technologies including chemicals, bio-technology and information technology. The country also offers Free Zones as an important part of its investment strategy and uses a discretionary approach in providing tax incentives (WB, 2019). Investment Programmes include 86 foreign direct investment projects totalling 1.8 billion dollars, of which more than half is for the energy sector[[60]](#footnote-60).

Despite these reforms, FDI inflows remain low as investors value a stable economic environment, a strong rule of law, and effective property rights more than the mere availability of tax incentives. The FDI practices in Uzbekistan are still perceived as restrictive.[[61]](#footnote-61) Government control of key industries has discriminatory effects on foreign investors. For example, the Government of Uzbekistan retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government still regulates investment and capital flows in the raw cotton market and controls all silk sold in the country, dampening foreign investment in the textile and rug-weaving industries. Furthermore, the risks of global growth slowdown decreasing global prices for traditional types of Uzbekistan's export products (cotton, gas, gold) may further drive down capital inflows.

Speeding up FDI attraction requires a level playing field. According to the World Bank (2019) authorities have effectively undertaken key reforms in the right direction: gradually adapting prices to cost recovery levels[[62]](#footnote-62); the intention to liberalize trading, including of electricity and gas; separating ownership and management of SOEs, according to the recently adopted corporate governance code; gradually divesting government ownership in SOEs.

The GoU plans to develop a Medium-Term Investment Policy Strategy to link the key indicators of the investment program with socio-economic development priorities of the country towards achieving positive structural changes in the economy of Uzbekistan. The Strategy guides the placement of new production capacities, infrastructure and social facilities according to available resources and the comprehensive development plans for a particular territory. It also determines the requirements for preparation of priority investment proposals involving the use of environmentally clean technologies, efficient use of natural resources, and staff training; and develops measures to provide special benefits and preferential terms at individual territories being in difficult socio-economic situation.

Remittances

Migrant workers and the remittances they send may be vital to underpin remote, rural communities across the country. They can improve welfare by raising household incomes and financing purchases of basic needs. This in turn can spur local economic activity in construction, communications, wholesale and retail trade, personal services, and other sectors: (a) remittances can be blended with ODA and public budget funds as a sort of ‘co-financing’ to magnify their development impact; (b) migration development banks (Canuto and Gevorkyan, 2015); and (c) attracting remittances into microfinance or revolving funds for local development[[63]](#footnote-63).

There is no further detailed information to analyze the use of remittances and their contribution to national development outcomes. Efforts to reduce legal “grey zones” associated with informality and irregular migration can pay large human development dividends for both source and destination countries. So can efforts to improve the extent and quality of information available to actual and potential migrants—many of which come from under-developed and isolated rural and mountainous parts of Central Asia (UNDP, 2015).

Engaging the diaspora to finance small-scale household investments

Uzbekistan has relatively large (over 10 million), but concentrated diaspora[[64]](#footnote-64). Most Uzbeks are spread in the neighboring countries (Afghanistan, Kazakhstan, Kyrgyzstan and Tajikistan), with the small numbers being represented in the other former USSR republics. In the relatively recent years the diaspora has been growing outside CIS. As this trend is expected to continue, there may be opportunities to harness the diaspora to support the socio-economic development of their homeland. This would require a strategic approach articulated in a corresponding policy for the engagement with diaspora. Diaspora may be invited to participate in the various economic projects (privatisation, for instance), cultural (preservation of cultural sites and artefacts), or involved in the national development in any other meaningful way.

Issuing Diaspora Bonds can be an innovative approach to harness enable the diaspora finance Uzbekistan’s socio-economic development. Diaspora bonds are standard, plain vanilla bonds that are offered by the country to its expatriates. They are often used for the well-defined infrastructure projects and/or remedying the damage suffered from some natural disasters. India and Israel are the best example of the countries that have engaged their large diaspora though the diaspora bonds (See Box 1). Diaspora bonds usually pay the lower-than-market interest rate, due to the patriotic duty and national sentiment of the diaspora. If the diaspora bonds are offered to the migrants/migrant workers, they may often be used to pay the government and other dues, with some discount.

**Box 1 Diaspora bonds in Israel**

Israel has been issuing diaspora bonds annually, since 1951, with the value of USD150 million to USD500 million and has been very successful in mobilizing the diaspora in the wealthy countries, especially the US. Nigeria has also tried to issue diaspora bonds and has been successful in attracting the large diaspora, especially in the UK and US, although not to the extent that Israel has done.

Diaspora bonds, although underlined by a patriotic premise, are a financial instrument whose success will ultimately depend on the financial stability of the country, country rating, international situation and support, price and structure of the instrument itself, amongst other factors. Also, the economic success of the migrants and their attitude towards their former country will also play an important role. There is also a possibility to consider the issue of a few different but similar bonds, as well as enabling the diaspora members to be more active in the capital market. In the case of Uzbekistan, diaspora bonds may be even more attractive, as they would spur the development of the capital market.

Source: to be determined

The opening of Uzbekistan presents itself a good opportunity to consider engaging the diaspora in a new way and offer them to participate in economic and societal development of the country through the acquisition of diaspora bond. This engagement may lead to the development of special opportunities for the diaspora members, granting them the same rights as to the current citizens, or simply giving them access to the services that have especially being tailored for them. For instance, in some countries, members of diaspora may be given an access to special, so-called ‘diaspora banking accounts’, which may be a mixture, a hybrid between the resident and non-resident account, giving the special privileges to the members of the diaspora. In other countries, the members of diaspora may be given access to the services provided for the citizens only, or be granted some rights which are not usually extended to the foreign nationals.

NGOs and Philanthropy

Harness civil society towards transparency and accountability

Uzbekistan is undergoing a major political transition developing a decentralized, participatory democracy, where the civil society is to become a major partner to the Government. However, for the political system to really embed the changes, it is necessary to have them first endorsed by the population, build and strengthen democratic political cultures, nurture public dialogue further and open and constructive exchange of views between various political options. In the 2000s many international NGOs (INGOs) have been banned from the country and with the opening of the country they have been allowed to resume operations in the country or to come and start operating. However, the volume of INGOs’ operations in the country is still rather small, but growing.

The Law on NGOs was amended, as the Law on Social Partnership was promulgated by the Parliament. While the law provides for freedom of association, the government continued to restrict this right[[65]](#footnote-65). Authorities sought to control NGO activity, internationally funded NGOs, and unregulated Islamic and minority religious groups. The operating environment for independent civil society, human rights defenders, remained restrictive, although several activists reported improved cooperation with government officials. The government has a legal framework for public oversight of the activities of government bodies and government officials. In accordance with the law, citizens, citizens’ self-government bodies, noncommercial organizations, and mass media have the right to exercise oversight regarding activities of government bodies and officials.

The law requires that organizations with an operating budget and funds register formally with the government. The law also requires that NGOs file annual reports to the government. Registered NGOs can receive grants from domestic and foreign donors. Receiving organizations must notify the Ministry of Justice of their grants and present a plan of activities to the ministry that details how the NGO would allocate the funds. If the ministry approves, no other government approvals are required. The ministry requires yearly financial reports from NGOs. A few international NGOs such as the German Friedrich Ebert Foundation and Konrad Adenauer Foundation do operate in Uzbekistan, but their activity is restricted; they cannot undertake any project without approval from state structures such as the Ministry of Foreign Affairs or the Justice Ministry.

An association and a fund for support of non-governmental and non-commercial organizations of Uzbekistan were established in 2005. Reportedly, by December 2016 the association embraced more than 550 different NGOs and the fund provided about UZS 9 billion in financial resources (UZS 8.2 billion in 2014) for various NGO projects (BTI, 2018).

Civil society organizations are mostly excluded from the policy process and relegated to non-political matters. The third sector is dominated now by GONGOs (government-organized NGOs), which are indeed periodically invited to meetings at local and top levels. But these organizations should not be confused with the genuine civil society (BTI, 2018). The Government may entrust dealing with ‘some social issues’ to the third sector organizations through contract, which will be funded from non-government sources, thus securing independence of the third sector partner. Parliament’s Public Fund for the Support of Nongovernmental, Noncommercial Organizations, and Other Civil Society Institutions continued to conduct grant competitions to implement primarily socioeconomic projects. Some civil society organizations criticized the fund for primarily supporting GONGOs. There are a few NGOs, ECOSAN (Ecology and Sanitary) being most prominent among them, that are active and realize various projects in the sphere of environmental issues.

International philanthropy is unexploited

Philanthropy in Central Asia has been around for just about 30 years. Charities were not supported or even allowed in the former Soviet Union. In Central Asia, the charities have re-emerged in the 1990s mainly through either religious giving, or through foundations established by the successful business tycoons and oligarchs. In most countries, the reporting requirements have not been high, and hence it has often been very difficult, if not even impossible to capture the individual giving.

Uzbekistan has not tapped into this source of development finance. From 2013 to 2018 Uzbekistan has received USD0.79 million in total.[[66]](#footnote-66) The Bill and Melinda Gates Foundation (BMGF) has provided over 2/3 of the total (i.e. USD 0.5 million). This sum is likely underestimated as only the major foundations report the activities to OECD-DAC. At the same time, Uzbekistan’s legislation does not require foreign foundations operating in Uzbekistan to report the financial inflows to the country, and the aggregate data is not available. Charitable contributions to ecological and charitable foundations and cultural, medical, educational, and municipal institutions, can be deducted up to 2% of the taxable income.

Islamic Finance

Zakat has been an important source of social finance in most Muslim societies, but it is difficult to estimate how much has been collected worldwide. It has been claimed that between USD200 billion and USD1 trillion is collected annually (Obaidullah and Shirazi, 2015; Islamic Development Bank Group, 2016). The compliance with Zakat differs from a country to country, but in several Islamic countries it is well over 90 percent.[[67]](#footnote-67)

In the case of Uzbekistan, it is difficult to estimate the current collection of Zakat[[68]](#footnote-68). Some estimate that about 20 percent of the population follow closely the Islamic rules and contribute Zakat. The most conservative estimate would be to use the minimum wage, totaling UZS 107,635[[69]](#footnote-69) (USD135.84) per year, suggesting that Zakat on that salary would be USD3.4, and if 6.6 million Uzbeks (i.e. 20 percent of the population) would pay it, the total Zakat nationally collected would amount to USD22,440,000. This is probably the lowest estimate than one may make, as the minimum wage earners would not be subjected to Zakat, although they may decide on their own to contribute anyway.

As Uzbekistan practices a decentralized model of Zakat collection, there are many disparities between mosques in the cities and rural communities[[70]](#footnote-70). Beside Zakat, the Muslim community operates a few more instruments of Islamic charitable finance, such as: Sadaqa, Waqf and Waqaf[[71]](#footnote-71). Waqf and increasingly Waqaf are practiced in Uzbekistan, but it is difficult to establish the volume of such Islamic charitable instruments.

According to the 2019 Global Islamic Finance Report, global Islamic finance market is growing moderately, underpinned by investments in the Halal Sectors, infrastructure, and Sukuk bonds. The industry's total worth, across its three main sectors (banking, capital markets, and TAKFUL), was estimated to be USD 2.05 trillion in 2017, marking an 8.3 percent growth in assets in USD terms. Global SUKUK outstanding surged by a record 25.6 percent to close at USD 399.9 billion as at end 2017, as per industry sources, on the back of strong sovereign and multilateral issuances in key Islamic Finance markets to support respective budgetary expenditures. Islamic banking is the largest sector in the Islamic finance industry, contributing to 71 percent, or USD 1.72 trillion, of the industry's assets. Islamic banking is commonly seen to have two advantages over conventional banking. The first is a perception that Islamic banks are bound to a higher moral standard. The second is that earnings come from identifiable assets, not opaque combinations of derivatives and securities. Because Islamic banks cannot make money through interest, they rely on ties to tangible assets, such as real estate and equity, charging rent' instead of interest. Kazakhstan is positioning itself to become Central Asia’s Islamic finance Hub.

Uzbekistan intends to introduce sukuk bonds in its capital market with the support of the IsDB. For the first time, Uzbekistan intends to allow companies in the country to issue bonds under Sharia law (sukuk bonds) in order to expand opportunities for market participants to attract additional capital. in 2018, the Ministry of Finance developed a draft presidential decree on measures to create the infrastructure of Islamic banking and finance in Uzbekistan. But it was not adopted. The document provided for development of a draft decision of the president on establishment of the Islamic Development Bank of Uzbekistan.

Public-private dialogue and collaboration

The construction of a strong and open civil society, which guarantees the protection of human rights, interests and freedoms have been a priority of democratic change in the country from the first days of its independence. However, effective models of genuine public-private partnerships remain under construction in Uzbekistan. In 2017, following a multi-stakeholder consultation process, the Parliament promulgated the Law on Social Partnership.

There is limited knowledge of the availability and impact of business development services (BDS) (Tadjibaeva, 2019). Around 60% of surveyed SMEs in Uzbekistan could not name any private BDS provider and almost none were aware of the existence of third-party providers, such as NGOs or business associations.49 This is especially true for SMEs operating in the regions, where 70% of SMEs do not know any private BDS providers. Public−private dialogue, and especially the role of business associations in promoting BDS, remains limited.

Public-Private Partnerships

The country’s first statutory act to regulate Public-Private Partnerships (PPP) - the Law “On Public-Private Partnership” - entered into force in July 2019. The law indicates that PPP projects shall concern the design, construction, supply, financing, reconstruction, upgrading, operation and maintenance of property, property complexes, or public infrastructure. Production sharing agreements and public procurement are excluded from the scope of the law. PPP contracts should have duration not less than three years and not more than nine years.[[72]](#footnote-72)

The PPP Law also creates the Agency for the Development of Public-Private Partnerships under the Ministry of Finance responsible for the overall coordination of PPP policies of Uzbekistan. The Agency for PPP Development acts primarily as a project manager for the Government and facilitates PPP development, besides implementing the Laws, regulations and policies of the Government (set by the Cabinet of Ministers).[[73]](#footnote-73) The Agency approves PPPs over USD 1 million and prepares a draft decision for the Cabinet of Ministers for the projects over USD 10 million. After the concepts are approved, they are registered with the public register kept with the Agency for PPP Development. The private partner may have its preparatory costs defrayed, up to 1 percent of the value of the winning bid (or the first reserve). The Agency for PPP Development has created a physical plan of the possible PPP project in the future, but there are no financial estimates available of the total value of projects in the pipeline.

In terms of securing the necessary financial package PPP projects may attract subsidies; government bodies may invest their own financial resources and property needed for PPP project to operate, and government budget resources may be used for purchases of a predefined amount of goods and/or services provided by PPP. Also, other government resources, government guarantees, tax and other advantages, and other guarantees and compensations may also be used in securing the financial package for PPP project.

The Government is considering decentralizing PPPs activities and supporting PPP projects initiated by the local government bodies in the fields of pre-school education. The GoU is also promoting Public-Private Partnership (PPP) models in the agriculture sector. It is expected that PPPs will provide additional revenues to the Government, not only through the direct engagement, but also through the fees and taxes and other indirect spill-overs. The framework is solid and provides a high level of security for a domestic investor-partner, as there is no discrimination between domestic and foreign PPP partner, and private partner position is de jure well secured.

Only one international PPP has been signed under the new Law. The UAE’s company Masdar will create a 100MW solar field[[74]](#footnote-74). IFC acted as a transactional adviser, and 23 companies expressed interest in providing the service.

*What institutional mechanisms exist for dialogue between public and private actors21 and for the participation of private actors in the design, implementation and review of policies that aim to influence private finance?*

*What institutional mechanisms does government use to coordinate its policies towards different types of private finance? What role do agencies responsible for environmental protection and social development issues play within these mechanisms?*

*Is there evidence of capacity constraints in government agencies or among private actors that are limiting sustainable, inclusive growth in private finance?*

Dimension 4: monitoring and review

Effective monitoring and review frameworks are a critical component of an integrated approach to financing. Finance tracking systems capture information on financing, on the resources that are being invested, by whom and how. Monitoring systems capture information on development results and the progress that is made towards the SDGs. The quality of these public and private systems and the ability to connect information between them will determine the extent to which a clear picture can be developed of the impacts that different types of investment are having on SDG outcomes, and crucially whether those investments are also cost-effective (UNDP, 2019).

Effective management of assets and liabilities ensures that: (i) fiscal risks are adequately identified, monitored and addressed in a timely and appropriate manner; (ii) public investments respond to infrastructure needs, including maintenance costs, and provide value for money; (iii) financial investments provide appropriate returns, assets are recorded regularly, and rules for asset transfers and disposal are followed; and (iv) the debt portfolio is managed based on a sustainable debt strategy minimizing debt service costs.

This dimension looks at the quality of these systems and the ability to connect them and use this information to inform policymaking. Overall, it aims to identify steps that can be taken to strengthen finance tracking systems and monitoring systems, enhance the potential to connect the two and support more informed finance policymaking.

Monitoring public spending

Internal and external scrutiny

The latest PEFA assessment (2019) reveals that Uzbekistan is still in the process of establishing a fully functional internal audit system. The internal audit function was recently established for central government entities, representing 81% of total budgeted expenditure and 84% of revenue. The current system of financial inspection does not follow international standards and there is little, or no internal audit focused on monitoring of the internal control systems. It is expected that by 2025 internal audit and financial control mechanisms will be operational across all ministries and departments.

The audit reports are submitted to both chambers of the Parliament for discussion and approval. However, the PEFA (2019) notes that the Parliament cannot analyse compliance with priorities agreed in the national development strategy nor the links between the budget and the strategic plans developed by the ministries. Sector committees scrutinize budget submissions and make recommendations to the plenary for consideration and approval, although Parliament has no power to amend budget estimates. There is, however, not obvious public participation at hearings.

The external audit and scrutiny by the legislature is relatively good enough to hold the government accountable for its fiscal and expenditure policies and their implementation. The annual external audit is carried out by the Chamber of Accounts, which is the Supreme Audit Institution, created in 2002. The Chamber of Accounts report is a review on the budget execution applying national standards, without focus on material issues and control risks. The Chamber of Accounts is independent from the executive and accountable to the President.

The external audit report represents a specific output produced by the Chamber of Accounts with conclusions on the execution of the State Budget. The legislative scrutiny of the audit report follows the established practice by the Law on Parliamentary Control. The transparency is not sufficiently ensured by having only mass media coverage of hearings of the audit report in the legislative chamber of the Parliament. There are no records of public attendance at hearings and the publication of the approved audit report is not easily accessible to the public.

Monitoring public spending

Uzbekistan’s arrangements for the effective management of assets and liabilities are not in line with international standards (World Bank, 2019). Monitoring of public corporations appears to be reasonable, but a comprehensive picture of the sector and the risks it poses to the country’s public finances is lacking. While analysis is being conducted on the economic and financial situation of public corporations using specific Key Performance Indicators, a specific consolidated report on the financial performance of the public corporation sector is not prepared. Monitoring of subnational governments is part of the regular budget monitoring and is strong due to the role of the territorial financial departments. Reporting on subnational finances is consolidated in the report on the financial position of the State budget and State targeted funds that is audited by the Chamber of Audit. However, a report on contingent liabilities and other fiscal risks is not compiled.

The implementation of the government’s capital investment program is not sufficiently supported by the current Public Investment Management framework and until 2017 did not meet international standards. Appraisals of public investment projects are not published. Regarding project selection, although all investment projects are prioritized by central entities on the basis of published general and broad standard criteria for project selection, political considerations and ultimately the available funding influenced the selection process of some projects. At the end of 2017 and in 2018 a complete overhaul of public investment management in Uzbekistan took place. The institutional roles and functions of NAPM, the State Investment Committee, the Ministry of Finance, the Ministry of Economy and other actors in the public investment management cycle are taking shape.

The significant share of off-budget spending presents a critical challenge to effective monitoring of public finances. The situation is similar with the 20,000-30,000 off-budget accounts. Many of these para-statal funds are controlled and managed by the line ministries and are used for specific purposes. Furthermore, line ministries operate many minor funds, which raise the revenue directly, outside MoF and State Treasury. Besides the extra-budgetary funds, there is a need to capture fully and reflect in the State Budget the operations of the targeted (single issue funds) and SoE.[[75]](#footnote-75) Formally, MoF has gained the authority over extra-budgetary funds in August 2016 (see: World Bank, 2019), but the control is more formal than operational; as the line ministries are still exercising operational control over the extra-budgetary funds. For example, public wages are paid from both budgetary and off-budgetary sources, resulting in disparate compensation for the same work and lack of a level playing field. The latter undermining the SDG principle of leaving no one behind as schools in less affluent areas receive less off-budget compensations, compared to less-well off areas.

However, the democratic and administrative oversight over them is challenging as they do not report on a consolidated basis. As off-budget spending is not subject to the same budget processes, monitoring, or accountability, authorities have no comprehensive view of all government spending when making decisions. These funds are outside the budgetary control, however, and there is no central monitoring how the money is spent. The authorities intend to consolidate most of these funds (EBFs) into the budget from 2020. So far, progress has been not as fast as initially intended.

As a result, it is difficult to establish the contribution of public spending to the economic development, except for EBFs with a specific developmental task (e.g. the Fund for Reconstruction and Development). Funds do produce annual financial reports and have to prepare their annual budgets. However, they are not integrated into the State Budget, or are not used to produce the General Government Budget. In some cases, there are discrepancies in the reported data between the IMF and MoF.

The rapidly changing institutional environment, fragmentation and overlap of public investment management functions makes it difficult to ensure that the investment pipeline is the optimal for Uzbekistan (WB, 2019). Lack of consistent data on the size and composition of public investment is complicating the process. The World Bank’s PER argues that greater clarity concerning the roles and responsibilities of the main actors would enhance the PIM process. The new investment process requires a general capacity upgrade over the project cycle in terms of guidance, identification, assessment, selection, and implementation. A better methodology to integrate the assessment of a project regardless of whether it is domestically or foreign-funded is needed. A stronger assessment of projects’ value for money, affordability, and potential contingent liabilities is needed, as is a clearer integration of investments into the regular budget process.

Uzbekistan’s tax incentive policy creates opacity in the government policy towards enterprises and results in substantial monitoring costs for the government, as the process involves discretionary procedures (WB, 2019). The efficacy of these tax incentives is in doubt because they do not appear to have boosted foreign direct investment, domestic investment, or business and job creation at the rates necessary for the rapidly growing population. Tax policy makers including the parliament need to have the information as to the cost of the tax incentives to the treasury. Just as expenditure budgets are scrutinized, so should tax expenditures need to be scrutinized. To do that, tax expenditure statements need to be prepared as part of the budget process. These tax expenditure statements should cover all tax incentives under all the major taxes including customs exemptions.

Monitoring concessional flows:

Since the successful set-up of an AIMS would be a tangible project output that may lead to future outcomes, such as more effective donor coordination, greater alignment of aid with national priorities and more evidence-based dialogue between Government and development partners, it is advisable to explore options for supporting the set-up and institutionalization of the AIMS beyond the implementation period of the Aid Effectiveness Project. (in progress)

Tackling corruption to raise the impact of public spending[[76]](#footnote-76)

In Uzbekistan, the level of corruption remains high[[77]](#footnote-77) and trust in government is low. The General Prosecutor’s Office (GPO) estimated that by mid 2019 approx. USD 3.7 million had leaked from the State’s finances through corruption, 70.5% of which were recovered. Moreover, press reports indicate that over $1 billion (2% of GDP) may have been illegally spirited out of the country during the first two decades of independence; the GoU is currently in negotiations with governments and banks in several OECD countries concerning the return of these funds (UNDP, 2018).

Beyond impacting public finances, corruption also deeply undermines legitimacy and trust in public institutions and shapes people’s perceptions of government performance and state effectiveness. It skews the distribution of public services and has a disproportionate impact on marginalized and vulnerable groups, leading to increased inequality.

A recently conducted public opinion poll[[78]](#footnote-78) reveals that the state’s most corrupt spheres are state-owned enterprises and institutions (possibly including the sphere of education and medical services), internal affairs agencies and banks. SDGs 3 and 4 on health and education are at risk if corruption in public health and educational institutions is not urgently addressed, eventually undermining human capital development.

Uzbekistan has initiated ambitious anti-corruption reforms[[79]](#footnote-79) to overhaul many areas of public governance, backed by political commitment at the highest level. Statements made at the highest level of the country pledging commitment to fight corruption had a positive effect improving openness and transparency of government and local public authorities and facilitating dialogue with representatives of the non-governmental sector (OECD, 2019). The public authorities of Uzbekistan have initiated dialogue and co-operation with the non-government sector. Public councils are being set up to advise the government authorities. Efforts have been made to evolve the system of public review of draft legal regulatory acts and involve representatives of the civil society in the development and implementation of the national anti-corruption programme. Selected institutional approach for the development, co-ordination and implementation of anti-corruption policy through set up of interdepartmental commissions at the national level (Republican Inter-Agency Commission) and across the regions (territorial inter-agency commissions) has allowed to cover the broadest possible range of government authorities, including those in the regions, and to rely on their different sectoral approaches, skills and knowledge (OECD, 2019). While provisions on the prevention of conflict of interest have been introduced in the legislation, their proper enforcement requires further regulation.

Curbing corruption provide an important avenue for financing Uzbekistan's Priority development outcomes. Reducing leakages increases the efficiency of public spending and the returns on public investments. Visible progress on tackling corruption can also underpin greater trust in government and citizens' tax morale. Furthermore, the recovered proceeds from corruption and illicit financial flows can be used to finance the SDGs. The latter would require the establishment of a special fund accumulating nationally confiscated and recovered stolen assets to support achievement of the SDGs. It is encouraging that the Government has identified the reduction of illicit financial flows and detection/recovery of stolen assets a priority for Agenda 2030.

The private sector also stands to gain enormously from effective action on corruption, reducing the cost of doing business. Successfully addressing corruption will require the concerted action of both governments and businesses through multi-stakeholder processes, as well as the use of the latest technologies of the Fourth Industrial Revolution to capture, analyse and share data to prevent, detect, and deter corrupt behaviour. The efforts applied by Uzbekistan to introduce e-government tools and make use of modern technologies in providing the public with services and information have a positive anti-corruption effect. It is advisable to continue to develop and improve them, implementing even more advanced interactive services.

Monitoring Development Outcomes and agenda 2030

Considering the stated SDG alignment of the national Action Strategy, successfully implementing the NAS also means significant progress on implementing the 2030 Agenda, and vice versa. However, the national Action Strategy does not contain a single reference to the 2030 Agenda or the SDGs (UNDP, 2018). The 2018 Presidential resolution “On Measures to Implement the National Sustainable Development Goals” establish a Coordinating Council for the implementation of the National Sustainable Development Goals and Tasks for the period up to 2030, chaired by the Deputy Prime Minister, the Minister of Finance and the Minister of Economy.

The resolution also provides a list of 128 SDG targets that comprise the basis for Uzbekistan’s national SDG monitoring system. Prepared by the Uzbekistan State Committee on Statistics (SCS), it includes indicators proposed at the global level and reflecting national development priorities. The main tool for monitoring and disseminating data on SDG indicators is the national SDG reporting platform (http://nsdg.stat.uz). The platform is a single center for collecting and summarizing information about the current situation in achieving the SDGs in the country. The SCS published a first statistical compendium with the latest available data for monitoring SDG progress in 2019.

The convergence points to potential efficiency gains by bringing the coordination and monitoring of the national Action Strategy (and subsequently, the Concept) and of the SDGs together under the same institutional roof. Indeed, international best practice has shown that anchoring the SDGs at the highest national planning and coordination level can support integration and consistency in medium and longer-term planning, implementation and monitoring of development strategies (UNDP, 2018).

In the three years since the signing of the 2030 Agenda for sustainable development, Uzbekistan has taken the necessary measures to integrate its goals and objectives into its national development plans, as well as to implement policy and organizational measures to bring them to life. Are all sectoral strategies and budgets of line ministries and state commissions aligned with the relevant national SDG targets?

Lack of quality data limits monitoring development progress

National monitoring, evaluation, and decision-making systems in Uzbekistan present several weaknesses, many of which are linked to Uzbekistan’s data ecosystem (UNDP, 2018). Access to official data is often limited, particularly for data that are considered sensitive, and, when available, official data often present issues of reliability and quality[[80]](#footnote-80) and is not disaggregated by vulnerability criteria. The generation of independent data by international organizations have tended to be restricted or permitted only through national research institutions, whose capacities for performing this work are not always adequate. The practical implications of this lack of data, for example, results in limited analysis of the economic and functional classification of government spending. Inter-sectoral data coordination is weak. The data collection systems of the SSC and line ministries often function in parallel with each other and are fragmented. Evaluation is not a common practice and mostly driven by international organizations[[81]](#footnote-81)

As a result, the use of evidence for decision making remains discretionary, often focusing merely on demonstrating that a quota or targets have been met rather than on identifying and strengthening existing policies. In addition, data-related incentives for officials under the current system, including audits and disciplinary action, favour the demonstration of good outcomes rather than accuracy.

In 2018, the GoU revised its GDP including parts of the informal economy. This complicates comparing data as a share of GDP from different sources as well as trends across time series for the latest years. For example, the 2019 World Bank’s PER, the most in-depth and complete analysis of public spending data in Uzbekistan, highlighted that adequate time series data to analyze the trends in consolidated government spending over time is missing.

Dimension 5: transparency and accountability

Transparency and mutual accountability between public and private actors is important for building trust that promotes collaboration and as a mechanism for boosting effectiveness. Transparency and accountability are two-way responsibilities. For government, it encompasses fiscal transparency and the degree of openness to scrutiny from actors including parliament, civil society, the media and others. Private actors and development partners also have a responsibility to publish information on their activities. This is a key enabler for these actors to be held to account and for the creation of an environment that enables enhanced public and private contributions to sustainable development. Mutual accountability and transparency support effective partnerships, strong monitoring and enable greater effectiveness in the impact of financing. (UNDP, 2019).

This dimension of the DFA looks at opportunities to enhance information sharing by government and other finance actors and to strengthen mechanisms for scrutiny and accountability.

political transformation and governance

President Mirziyoyev presidential campaign focused on the clear message that the government should demonstrate a higher level of transparency and openness, whilst serving the people. To promote these changes three documents have been developed soon after he was elected: 1) Judicial and Legal Reform Programme; 2) Action Strategy on Five Priority Areas of the Country’s Development 2017-2021, and 3) the Concept of the Administrative Reform. The Judicial and Reform Programme aims to strengthen the rule of law in the country, create more efficient and effective legal system that would support the further social development of the country. The Action Plan is devised along the similar lines and promotes further development of country in the socio-economic sphere (rule of law, legal system, economic liberalization and development, and so on). There is a foundation for the social partnership between the Government and people, where informal and semi-formal institutions are recognized as a social partner by the Government. The Concept argues for the full professionalization of the public administration, better management practices in the government ministries, agencies and departments, and decisive anti-corruption measures. The Concept clearly sees ineffective management, lack of professionalism and corruption as major challenges facing the Uzbek public administration (the Civil Service).

The President has also changed the process how the Governors are appointed in 2017, less than a year after his own election. In the past, the Governors were a Presidential appointee and now the citizens directly elect them. The same applies to Mayors; which makes them both directly accountable for their actions to the electorate.

The scores for the World Bank’s Quality of Governance (QoG) indicators throughout the previous period of autocratic regime (pre-2016) are very low. The average score of the World Bank’s governance indicators have been improving since 2010, albeit starting from a very low base (Figure 26). The latest data seem to indicate that the wave of reforms undertaken since is slowly speeding up necessary improvements across all governance indicators.

Figure 26 Governance indicators

Source: World Bank, World Governance Indicators, 2020.

Note: Scores range from approximately -2.5 (weak) to 2.5 (strong) governance performance.

The QoG indicators signal the scale of the sustained efforts required by the GoU towards improving the country’s overall governance performance up to the level of modern day democracies. With great promises of political and economic reform, the government has set a high bar for itself. A continuing paternalistic form of governance, with its restricted civil society freedoms, human rights, stifling bureaucracy and corruption, against continuing lack of opportunities, may clash with the expectations of a growing young population (Chatham House, 2019).

This will require prioritizing the strengthening of independent institutions to deliver results to the country’s expectant people. Small and innovative steps have been taken to improve the rule of law[[82]](#footnote-82), but more can be done, including introducing transparency over judicial processes and ensuring regional authorities have less impunity before the law. The new leadership has transformed the media environment, but the country still lacks objective analytical reporting (Transparency International, 2019).

Fiscal Transparency

The degree of fiscal transparency can help provide a sense of a country’s fiscal credibility and plays a role in how financial markets view the country’s fiscal track record. Fiscal transparency contributes to macroeconomic stability, reduces corruption, provides control over budget expenditures, ensures accountability of government, and increases the attractiveness of the country in terms of investments.

Public disclosure of information is becoming a critical feature of PFM systems in the country due to a series of other initiatives demonstrating the government’s willingness to facilitate scrutiny of government policies and programs by citizens. Transparency is a cross-cutting principle of the Budget Code of Uzbekistan, adopted in 2013. The MoF is committed to align budget preparation and execution procedures with the Code of Good Practices on Fiscal Transparency of the IMF and the GoU adopted a “Law on Government Openness”.[[83]](#footnote-83) In 2015, the Government launched an open data internet portal, which is meant to serve as a “single access point” to the open data.[[84]](#footnote-84) Different Government agencies have already taken first steps towards implementing the Fiscal Transparency Code and the Law on Openness, some with support from UNDP.

Public access to fiscal information does not comply with international standards (World Bank, 2019). Uzbekistan has no pre-budget statement yet, lacks information on tax expenditures and macroeconomic forecasts, and does not make public external audit reports other than the audited annual budget execution report. Budget documentation is comprehensive, of good quality and available publicly, including the approved budgets, the in-year budget execution reports, and the annual budget execution report. The budget documentation includes tax policy decisions and their respective fiscal impact which supports maintaining fiscal discipline and facilitate strategic allocation of resources. The consolidated budget document contains the State budget and the State targeted funds, and estimated revenue and expenditure of the Fund for Reconstruction and Development (FRD). The revenues and expenditures of the State budget and the State targeted funds are channelled through the Single Treasury Account (STA), and the annual budget execution report includes both the State budget and the State targeted funds

In contrast, the report of the Chamber of Accounts on the annual execution of revenue and expenditure is not being published consistently despite being debated by the Parliament and covered by mass media. There is little information on whether public participation forums or events are held in relation to the budget formulation and the hearing on audit findings at the Parliament is not publicized.

An important improvement towards enhancing transparency of public spending was the publication of the first, annual citizen’s budget[[85]](#footnote-85) in 2018. These provide civil society with relevant knowledge to participate as informed stakeholders and hold the government accountable for how it manages public money. The goal of the citizen’s budget is to improve the effectiveness of the budget process by ensuring wide awareness of the citizens about the budget system, the formation and execution of the budgets of all levels as well as the budgets of the state targeted funds. It covers the goals and priorities of the budgetary policy and simplifies the involvement of the citizens in the budget discussion and implementation of monitoring processes. (When is it published during the budget process and to which extent has it supported the public to influence and inform the budget preparation and execution process?)

Uzbekistan has made steps to implement the law on openness of bodies of government and administration, with an effective system of monitoring of its implementation. There is a uniform electronic system in place for the publication of information by public authorities, although some parts of it are still at the launching stage. Across all public authorities there are appointed officers responsible for ensuring access to information, but they need training. There has been an important achievement in the electronic publication of draft and adopted normative legal acts. Implementation of these initiative should be continued and followed through with the standards and rules for the online publication of open data, having established rules for their free repeat use, together with the minimum list of mandatory sets of data, as well as ensuring a functioning national portal of open data. It is important to ensure publication of publicly important registers.

Accountability of public spending

The performance information on service delivery is hardly available at the planning and reporting stage, but steps are taken to promote informed policy decisions and to drive a proper accountability process on the outcome of financial execution through delivery of public services. Most performance information submitted as part of the budget requests have the nature of input or activity information or the number of users and do hardly possess characteristics of outputs (with a few exceptions) or outcomes. The budget documentation does not contain any performance information. The indicators are listed by budget institution and are not related to a specific activities or development programs of budget institutions. Like in the planning stage, most listed indicators are not of an output or outcome nature.

Uzbekistan’s central-local government structure is one of administrative deconcentration. In such a structure, subnational governments play a role as the central government’s agent in the regions and are accountable to the central government. Resources are transferred to the local governments while allowing them little autonomy or discretion in decision making.

Aid efectiveness and accountability

Monitoring development progress would benefit from preparing regular SDG reports for national stakeholders, including the national parliament and civil society, as well as a voluntary national review for presentation at the UN High Level Political Forum in 2020 (how is that progressing?). Realizing that commitment would require stepping-up collection and dissemination of the official statistical data needed to monitor the implementation of nationalized SDG indicators through a national SDG web portal.

No information on transparency and accountability regarding private sector contribution to development ( SOEs, FDI, private investment)

Key Findings and recommendations

Recommendations/Roadmap

(in progress)

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Annexes

SWOT analysis of development finance in Uzbekistan

STRENGTHS

* Strong political momentum for undertaking major reforms
* abundant and diversified natural resources (gas, gold, cotton, hydropower potential);
* low level of debt and comfortable foreign exchange reserves;
* ambitious public investment program;
* important size of the domestic market (population of 32 million)
* strategic position between China and Europe ("New Silk Road").
* comprehensive reform program to strengthen public financial management and fiscal transparency
* Strong fiscal stability, with low public debt and low risk of debt distress

Specific:

* Ambitious tax reforms in 2019 has not resulted in lower revenues, providing a good financial cushion for the authorities to start restructuring SOEs and bolstering social support to individuals that lose jobs in the process.
* Planned privatization program will generate public revenue inflows over the coming years (sectors, amount to be collected, used for what?), depending on the improved management of SOEs
* Natural resource wealth underpins FDI, exports and foreign reserves
* High level of social spending
* Strong SME growth (from 30% to 60% of GDP)
* Clear and comprehensive tax system
* Aid Information Management System (AIMS) underpins the capacity in the formulation and management of project portfolios, as well as the better prioritization and improvement of results based orientation;
* Ongoing south-south cooperation in the agricultural sector
* Strong remittance inflows as a source of foreign currency and one of the cheapest remittances corridor for sending money from Russia to Uzbekistan
* Substantial savings in the Uzbekistan Fund for Reconstruction and Development (SWF, stabilization fund, and a development bank)

WEAKNESSES

* Low economic diversification and dependence on the export of a few commodities such as hydrocarbons and cotton, rendering it vulnerable to international commodity market fluctuations.
* Low-value added exports
* Low competitiveness;
* State interventionism and difficult general business climate;
* Double-digit inflation, driving up the cost of debt to the private sector.
* Weak data ecosystem and unreliability of official data prior to 2017 undermining evidence-based policy-making and performance monitoring (both flows and development outcomes.
* Large informal sector and persistent regional inequalities as well as gender imbalances
* Weak governance indicators, combined with high perception of corruption and low trust in government
* Environmental degradation undermining growth potential
* Capacity constraints in public administration to drive through vast and ambitious reform programme.

Specific:

* Significant off-budget spending, with tax incentives and exemptions impose a large direct fiscal cost to the budget, as well as energy subsidies and quasi-fiscal support to SOEs.
* No debt management strategy
* No policy for managing natural resource revenues
* The PPP law’s maximum of 9 years undermine attracting patient capital into infrastructure investments, which typically have a longer term time horizon. The PPP plan has no financial estimates.
* Underdeveloped banking and financial sector, combined with shallow and illiquid capital markets with high interest rates, undermining SME access to credit and channeling domestic saving towards financing domestic investments.
* Underfunded agricultural sector (e.g. shares of Debt, FDI, etc.), despite its importance to provide livelihoods in rural areas (50% of Uzbekistan's population is rural)
* The energy sector absorbs most of the external development finance flows (debt, FDI, trade), with little development impact.
* Education system doesn't meet the demands of the market and the higher education system performs poorly.
* GFCF is below the MIC country’s average, outdated infrastructure requires significant capital investments
* High sensitivity of Remittances from Russia, relatively volatile source of funding
* Almost all ODA is provided through project finance and is not on budget.
* No Climate finance strategy
* Knowledge gaps (value, scope, potential, actors, etc.) on South-south Cooperation complicate.
* Small volume of INGOs operating in the country
* Philanthropy and CSO is not well-embedded in former socialist countries.
* knowledge gaps regarding the prevalence of Zakat in Uzbekistan and only 50% of citizens claim to be interested in Religion; decentralized Zakat Model may complicate linking it to specific development outcomes or social policy objectives.
* Slow improvements in CSR, no focus on environmental aspects. CSSR is not integrated in the standard business model
* No international foundations active in Uzbekistan

OPPORTUNITIES

* With 40% of the population aged below 25 year, the Uzbekistan may reap a demographic dividend during the next decade, boosting economic growth and productivity. At the same time, realizing this dividend is expected to require significant additional public spending in education and health systems to bolster its human capital.
* Strong political momentum to undertake critical institutional and economic reforms. The Government's aims to transform Uzbekistan into an industrialized, upper-middle-income country by 2030, and has recently announced plans to modernize the agriculture sector, reduce its ownership of state-owned assets and enterprises, address constraints in the financial markets, introduce institutional and structural transformations in order to improve public administration, and increase credit and microcredit resources that are provided to public and private sectors of the economy.
* Significant improvements in the doing business environment following effective tax policy and administrative reforms.
* The opening of the country has already materialized in renewed cooperation with key development partners and international financial institutions. Their further effective continuation may attract renewed investors’ interest from beyond Russia and China.
* China’s Silk Belt and Road Initiative provides the opportunity to attract investments in transport infrastructure and lock in Uzbekistan’s central location as a transport hub from East to West.
* Vast solar energy potential

Specific:

* Significant PFM reforms are expected to increase the effectiveness of public spending, along with transparency and accountability.
* tap into green bonds: Green bonds have boomed for the last 6 years, growing from about USD2.6 billion in 2012 to the staggering USD167.6 billion in 2018, and despite some slower growth in the last year, the trends are positive (see: Climate Bond Initiative, 2018)
* Consider impact investment: sector is expected to top USD 400 billion (dag hammarskjÇöld Foundation, 2017)
* harness CSOs: Improved relationship with the third sector following the adoption of the Concept of the Administrative reform
* Developing the domestic private sector and entrepreneurship is a national priority.
* Increase FDI:
* Planned lifting of investment restrictions in the mining secor
* New PPP framework in place along with the decentralization of PPP activities and supporting local governments (e.g. in pre-school education)
* Newly created Capital Market Development Agency to increase market Cap to 25 billion USD > What is the role of impact investment ESG, Green finance in this new capital - What if this increased finance could be tagged somehow to SDGs?
* Diversify and consolidate export revenues: Agribusiness; lobby abroad for a lift of the ban on the cotton industry to drive rural development and job creation; improvements in the borderless trade mechanisms; Poland, Russia, and the Netherlands have strengthened agricultural relations with Uzbekistan; Trade: harmonizing its import tariffs with Eurasian Economic Union standards; the UAE has also agreed to increase trade volume and investments in textiles, renewable energy, infrastructure, and agriculture. A large trade and logistics center will also be constructed in the border areas of Kazakhstan and Uzbekistan.
* Consider using faith-based finance to support rural development.
* Renewed interest from DAC donors following the political opening may underpin a temporary boost of ODA inflows, along with technical capacity; harness donor’s interest in climate finance and promoting gender equality
* As the country moves towards UMIC, develop strategy for maximizing OOFs and export credits to crowd-in private investors through risk mitigating mechanisms.
* SSC and regional cooperation to mitigate global public threats emanating from climate change and migration.
* Exploit potential of tourism for foreign exchange and rural development. (Uzbekistan was the fourth fastest growing country for tourism in 2019 (+27.3%), receiving 6.7 million tourists (United Nations World Tourism Organization))
* Remittances: explore how to engage diaspora to finance local development
* OOF - Export credits supported by official [Export Credit Agencies](http://www.oecd.org/tad/xcred/eca.htm) (ECAs) in developing countries often finance large-scale projects in developing countries. Even though export credits cannot be assimilated to development finance given their commercially motivated and demand-driven nature, they still play an important role – by mitigating risks – in providing access to capital and enabling projects in key segments of the economy (e.g. industry, infrastructure).

THREATS

* **COVID-19:** The main threat now emanates from the impact of the unfolding COVID-19 crisis: increases in public spending needs, while driving down public revenue; Increase in risk profile may lead to more costly access to debt financing; Capital flight from emerging markets undermine FDI; historical decline in remittances (World Bank estimates a historical decline in global remittances of US$110 billion – ECDPM- which normally tend be a resilient finance flow in times of crisis; concessional finance gets diverted to new priorities.
* **Environmental threats**: Droughts could further push land degradation and desertification and by the turn of the century, large stretches of Uzbekistan could emerge as arid areas. Reduction in water availability is projected to occur along with a 30 percent increase in irrigation demand (driven by higher temperatures that push up evapotranspiration). Combined with increased heat extremes that negatively affect crop productivity, substantial risks for irrigated and rainfed agricultural systems can be expected. Agricultural yields could drop by as much as 10-25 percent by mid-century.
* **Macro-economic threats**: The strong increase in domestic credit may convert into a costly boom-bust cycle if not properly managed
* Emigration threatens domestic economy and brain drain
* Global economic slowdown and commodity price drop (gold, cotton, copper, zinc, led, tungsten and uranium) on government revenue.
* Social spending needs increase fiscal pressure (on debt and domestic revenues)
* Stagnation of global ODA flows
* Volatile FDI flows
* Uzbekistan becomes a migration destination country
* fiscal pressures are emerging in the process of economic transformation and as citizens demand higher quality of education and other public services.

Methodology

(in progress)

* Point on government led process and dialogue
* data
* institutional set-up

Development Finance Analysis (DFA) is an instrument developed by UNDP to assist in charting the development finance flows and provide an input for the subsequent development of development financing strategy and Integrated National Financial Framework (INFF).[[86]](#footnote-86) DFA has been undertaken at the request of the Government of Uzbekistan and undertaken by UNDP. The Ministry of Finance (MoF) has been a leading agency in the process of development finance assessment and has coordinated with the other line ministries, as well as relevant stakeholders – Central Bank, international financial institutions (IFIs)[[87]](#footnote-87), and so on. The purpose of DFA is to provide comprehensive information on development finance in Uzbekistan since 2013, with the particular focus on the period of 2017-2019.

This Study focuses on the analysis of the development finance flows in Uzbekistan from 2013 to 2018/9. Following the DFA methodology (UNDP, 2019) the Study ultimately builds a comprehensive picture of development finance flows that can be used by the national Government in planning the attracting and managing development finance resources.

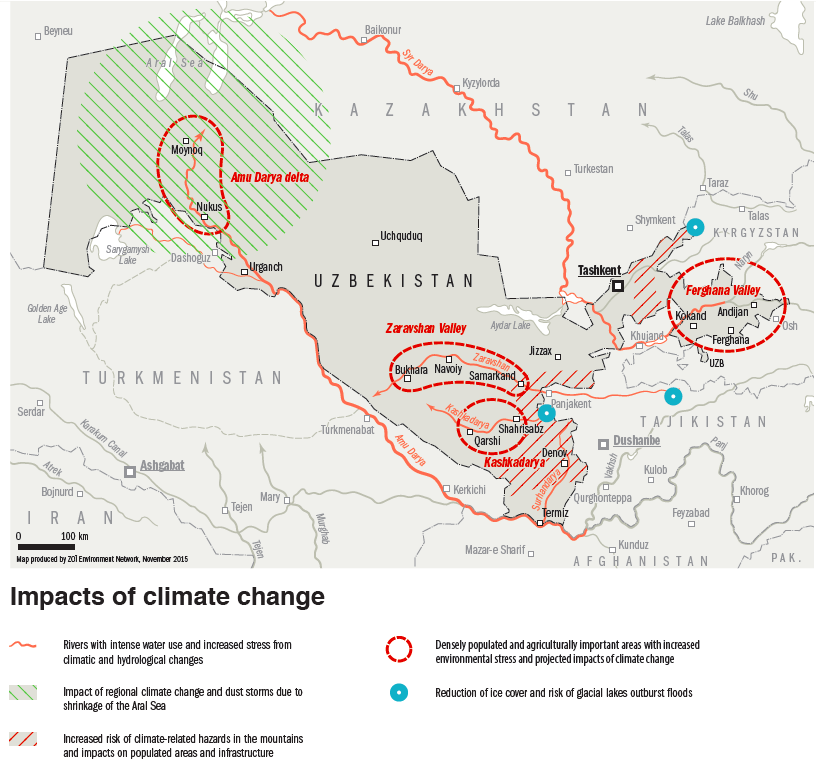
Inception phase began with the national government and its development partners commissioning the DFA study. The Uzbekistan Government has requested this Study to be developed to support their overall efforts in delivering SDGs and securing the financial resources required to deliver SDGs.

The next phase was the desk-review and initial consultations during which the working relationships were established with all the major stakeholders and data was collected from the national sources. When the desk-study research was completed the meetings were arranged with the stakeholders and their representatives. Throughout the entire process the consultations have been crucial in ensuring that the data and documents were interpreted in the most appropriate manner.

Data was received and retrieved from a range of sources. Most of it was provided by the Uzbekistan Government (the Ministry of Finance (MoF), Central Bank and Statistical Office). MoF has designated a Technical Group of its own experts to support data mining and provide necessary assistance in gathering information from various government ministries and departments. International data sources were used only when the national data is missing and to supplement nationally provided data. In some case the Government sources have provided data held by the World Bank and advised for the data to be used.

Data tables

Impacts of climate change



Source: Zoi Environment Network (2015), Uzbekistan CLimate facts and policy

1. <http://nsdg.stat.uz/en/databanks/indicator-table?id=1.2.1> [↑](#footnote-ref-1)
2. About 200,000 to 250,000 people enter labor market every year (GoU, 2020) [↑](#footnote-ref-2)
3. Proxied here by gross fixed capital formation by the private sector. [↑](#footnote-ref-3)
4. Including extra-budgetary funds (EBFs) [↑](#footnote-ref-4)
5. The sum of contributions paid by firms to the Pension Fund, Employment Promotion Fund and Trade Union Fund. [↑](#footnote-ref-5)
6. The authorities report that 17,246 enterprises benefited from 9.3 billion soms in tax incentives through the tax code, while 21,355 enterprises benefited from 6.4 billion soms in tax incentives through government decisions (WB, 2019). [↑](#footnote-ref-6)
7. reports from businesses about unofficial ad hoc levies collected by local authorities for charity, local infrastructure development, holding various events. ( How to integrate that in the CSR? ) [↑](#footnote-ref-7)
8. **The State Committee on Customs** collects about 9 percent of the total public revenues [↑](#footnote-ref-8)
9. Which is about USD 15.7 million at the current exchange rate (December 2019). In the State Budget where the privatization revenues are planned, the same amount is budgeted on the expenditure side, which is surprising. [↑](#footnote-ref-9)
10. See: <http://privatization.davaktiv.uz> [↑](#footnote-ref-10)
11. Presidential Decree No. PP – 4300 of April, 29th 2019 [↑](#footnote-ref-11)
12. Resolution of the Cabinet of Ministers No. 358 of April 26, 2019 on the Organisation of the Initial and Secondary Public Offerings of Shares at the Stock Exchange [↑](#footnote-ref-12)
13. The Agency was set up in January 2019 by a Presidential Decree (No. UP 5630 of 14th January 2019) to manage the state assets. See more at <http://davaktiv.uz> [↑](#footnote-ref-13)
14. Many IFIs have flagged the issue of (corporate) governance as one of main issues to be addressed during the reform process [↑](#footnote-ref-14)
15. See: <http://privatization.davaktiv.uz> [↑](#footnote-ref-15)
16. External debt is about 35 percent of GDP (see: IMF, 2019; data provided by MoF) [↑](#footnote-ref-16)
17. All public data covering mainly the period 2017-2019 can be found on <https://nsdp.stat.uz>. In some cases the data series from 2013 may be found. For non-economic data, data series may be longer (like population covering the period from 2002). Economic data series will be provided on the website of MoF [↑](#footnote-ref-17)
18. EURO bond issue has increased the public external debt by 1.75 percent of GDP. [↑](#footnote-ref-18)
19. Alkis Vryenios Drakinos, head of the resident office in Uzbekistan at the EBRD. [↑](#footnote-ref-19)
20. Moody’s Investors Service. [↑](#footnote-ref-20)
21. Odilbek Isakov, head of the country’s debt management office [↑](#footnote-ref-21)
22. The State Targeted Funds are established to perform targeted operations for the government in various areas of economy. These funds have been recently reduced from ten to six. In addition, there are about 30 extrabudgetary funds with functions targeting a wide scope of social and economic topics (World Bank, 2019).  [↑](#footnote-ref-22)
23. Growth Commission. 2008. Growth Report. Report. <https://openknowledge.worldbank.org/handle/10986/6507>. The report indicated that the governments of the 13 successful countries it studied invested 5-7 percent of GDP [↑](#footnote-ref-23)
24. The share of external finance that was provided through ODA for the period 2012-16 dropped from 65% for countries at the lower end of the LMIC band (USD 996 per capita) to 35% for countries at the upper end (USD 3 895 per capita). (Piemonte et al, 2019) [↑](#footnote-ref-24)
25. The LMICs received 50% of total multilateral concessional finance while non-concessional finance is directed towards LMICs (41%) and UMICs (52%) (OECD, 2018a). [↑](#footnote-ref-25)
26. In 2017, a total of USD 46.4 billion from DAC members, corresponding to 39% of their combined bilateral ODA, addressed gender equality as either a principal (dedicated) or a significant (integrated/mainstreamed) objective. [↑](#footnote-ref-26)
27. See: OECD CRS Microdata for OOF annual data [↑](#footnote-ref-27)
28. Turakurgan thermal power station construction project [↑](#footnote-ref-28)
29. Scaling up the Climate Adaptation and Mitigation Program for Aral Sea Basin (CAMP4ASB) by providing support to adaptation activities in Tajikistan and Uzbekistan. [↑](#footnote-ref-29)
30. The GEFF programme operates through a network of more than 130 local financial institutions across 24 countries, supported by almost EUR 4.2 billion of EBRD finance. More than 129,000 investments have led to reduction of over 7 million tonnes of CO2 emissions per year. [↑](#footnote-ref-30)
31. See: <https://www.unsouthsouth.org/2019/12/05/urgent-actions-to-manage-water-supply-and-waste-required-in-chust-uzbekistan> [↑](#footnote-ref-31)
32. <https://www.unsouthsouth.org/2019/07/10/south-south-cooperation-for-agriculture-development-gains-momentum> [↑](#footnote-ref-32)
33. See: Стратегия сотрудничества Юг-Юг в области сельского хозяйства [↑](#footnote-ref-33)
34. Member countries are: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan. [↑](#footnote-ref-34)
35. The participating countries are: Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan [↑](#footnote-ref-35)
36. United States Agency for International Development (USAID), Japan International Cooperation Agency (JICA), FAO-Turkey Partnership Programme (FTTP) and FAO [↑](#footnote-ref-36)
37. The target countries are: Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan [↑](#footnote-ref-37)
38. Iran hosts the UNIDO International Centre on Nanotechnology, established in 2012  [↑](#footnote-ref-38)
39. Private finance here refers to: domestic commercial investment, foreign direct investment, portfolio investment, borrowing by the private sector and remittances. [↑](#footnote-ref-39)
40. Government credit policies have created a segmented market. The credit market is split

    into a commercially (market credit) driven segment and a preferential segment. Historically, market driven credit was largely allocated to the private sector (corporations and households) and in local currency, while the preferential credit was allocated to SOEs and priority sectors and in foreign currency. Preferential interest rates are well below market interest rates. In December 2018, the average interest rate on market loans was 21.8 percent while the rate on preferential loans was 8.4 percent. Therefore, government intervention in the credit allocation and pricing are key drivers of the market segmentation. (IMF, 2019). [↑](#footnote-ref-40)
41. Anecdotal reference suggests that although FOREX reform has eliminated the black FOREX market, it did not eliminate fully the informal lending market. [↑](#footnote-ref-41)
42. An Uzbek-German investment summit, held in Berlin in January 2019, saw €4bn ($4.5bn) worth of deals inked on day one. [↑](#footnote-ref-42)
43. For a period of January-December 2018, 4 regions (Tashkent, Navoi, Bukhara, and Kashkadarya regions) accounted for about 51% of the total investment and 64% of the foreign investment inflow (GoU, 2020). [↑](#footnote-ref-43)
44. See: <https://www.reuters.com/article/us-uzbekistan-economy-migrants/migrant-workers-struggles-push-uzbekistan-to-open-up-idUSKCN1OK0EX> [↑](#footnote-ref-44)
45. The list of top priority reforms required for implementation of the innovative development scenario is provided in the Innovative Development Strategy of Uzbekistan for 2019−2021 (Presidential Decree dated September 21, 2018). [↑](#footnote-ref-45)
46. Such as: Macroeconomic indicators forecast, Concept of fiscal policy, and Job creation and employment programme [↑](#footnote-ref-46)
47. Referred to as the Budget and Economic Reform Committee (*Комитет Законодательной палаты по бюджету и экономическим реформам*) in the Law on Parliamentary Control (2016) [↑](#footnote-ref-47)
48. Programs are essentially integrated groups of activities and outputs, which consume resources to contribute to specified policy objectives. [↑](#footnote-ref-48)
49. A program classification is a way of describing the expenditure plan of the government in terms of its objectives. [↑](#footnote-ref-49)
50. While the Government has formulated various reform policies, plans and strategies at (cross-) sectoral and territorial levels, there is currently no single, integrated macro-level social-economic reform plan reflecting policy goals from which a program classification could be derived. [↑](#footnote-ref-50)
51. <https://mfa.uz/en/press/news/2019/07/20183/?print=Y> [↑](#footnote-ref-51)
52. In the first six months of 2019, over 60,000 new businesses were registered [↑](#footnote-ref-52)
53. The Office of the Commissioner for the Protection of the Rights and Interests of Business Entities [↑](#footnote-ref-53)
54. Presidential Decree No. PP-3777 of June, 7th 2018 on the Implementation of the Programme Every Family is an Entrepreneur; and ensuing Presidential Decree No. PP-4321 of March, 7th 2019 on Additional Measures for Widespread Public Involvement in Entrepreneurship and the Development of Family Entrepreneurship in the Regions  [↑](#footnote-ref-54)
55. The EBRD has provided a loan of EUR100 million for the programmatic support of SMEs and development of small businesses and

    entrepreneurship. [↑](#footnote-ref-55)
56. <https://carecsr.com/2019/05/13/how-csr-can-help-businesses-in-uzbekistan/> [↑](#footnote-ref-56)
57. See on the range of engagements at: <https://bat.uz/en/doings/social-responsibility/> [↑](#footnote-ref-57)
58. See: <http://amcham.uz/corporate-and-social-responsibility-committee/> [↑](#footnote-ref-58)
59. In 2019, it ranked 76th overall, with being 12th country in the world for the easiest start of a company [↑](#footnote-ref-59)
60. <https://santandertrade.com/en/portal/establish-overseas/uzbekistan/investing#choose> [↑](#footnote-ref-60)
61. See: <https://www.nordeatrade.com//en/explore-new-market/uzbekistan/investment-environment> [↑](#footnote-ref-61)
62. Impressive progress has been made in the energy sector, with the average electricity price already raised to USD 0.043 by late 2019 from USD 0.02 at the start of reforms. [↑](#footnote-ref-62)
63. Recent studies have found, for example, that remittances could finance much needed small-scale household energy efficiency investments in rural and mountainous Central Asian communities that spend much of the winter without access to reliable heat and energy supplies (Basel Agency for Sustainable Energy (2015)) [↑](#footnote-ref-63)
64. IOM defines diasporas as “migrants or descendants of migrants, whose identity and sense of belonging have been shaped by their migration experience and background.” [↑](#footnote-ref-64)
65. <https://www.state.gov/reports/2019-country-reports-on-human-rights-practices/uzbekistan/> . [↑](#footnote-ref-65)
66. OECD/DAC data [↑](#footnote-ref-66)
67. For instance, the Pew Research Center has estimated that in Indonesia, 98 percent of Muslims comply with *Zakat* requirements (see: Pew Research Center, 2012). [↑](#footnote-ref-67)
68. In the case of the Central Asian republics, less than 50 percent of citizens would state that the religion is central to their life (see: Pew Research Center, 2012). [↑](#footnote-ref-68)
69. The amount has not changed since September 2014 (see: <https://www.minimum-wage.org/international/uzbekistan>) If one considers PPP, the sum is most likely higher than the nominal USD135.84. [↑](#footnote-ref-69)
70. Practices show that both centralized as well as decentralized collection of Zakat function almost equally well. [↑](#footnote-ref-70)
71. Sadaqa is a form of voluntary charitable giving beyond and above compulsory Zakat. Waqf is in essence an endowment, whilst Waqaf is a religious endowment. In the case of Sadaqa and Waqf the religious element may not be at the forefront, as this is the case with Zakat and Waqaf. Often Sadaqa may be given in kind, such as time, expertise, support, and so on, and the monetary giving may not necessarily be required. [↑](#footnote-ref-71)
72. The maximum duration of nine years is very short; as per international practice [↑](#footnote-ref-72)
73. For a full list of duties and authorities see Art. 12 of the PPP Law [↑](#footnote-ref-73)
74. The Uzbekistan Government has committed to generate 21% of its energy needs through renewables by 2030, including 4 GW of solar energy. [↑](#footnote-ref-74)
75. The State sector still makes about 40 percent of the entire economic activity in the country and contribution to GDP, although in terms of numbers, private companies are dominating (over 90 percent of total number of economic agents in the country) [↑](#footnote-ref-75)
76. This subsection draws heavily on the analysis provided by OECD (2019), 4th round of monitoring of the Istanbul Anti-Corruption Action Plan. [↑](#footnote-ref-76)
77. Uzbekistan ranks 153rd out of 180 countries in Transparency International's Corruption Perceptions Index 2019. [↑](#footnote-ref-77)
78. Source: Information and analytical report on the results of the public opinion poll “Fight against corruption in the mirror of public opinion”, available here: http://ijtimoiyfikr.uz/ru/issledovaniya/borba\_s\_korrupciey\_v\_zerkale\_obshestvennogo\_mneniya. [↑](#footnote-ref-78)
79. The recently adopted Law on Combating Corruption introduces the legal framework and an effective institutional mechanism for ensuring coordinated anti-corruption policies and measures. [↑](#footnote-ref-79)
80. Scholars and practitioners alike have questioned Uzbekistan’s official data published before 2017. [↑](#footnote-ref-80)
81. a list of 35 indicators, to be used for ranking all municipalities for performance evaluation purposes [↑](#footnote-ref-81)
82. The Judicial and Legal System Reform Programme introduced the concept of openness in the public sector, setting the expectation of how public sector organizations should interact with media, citizens’ organization, civil society, and other societal stakeholders. [↑](#footnote-ref-82)
83. “*Law of the Republic of Uzbekistan on openness of the activity of bodies of state authority and administration”* (unofficial translation). [↑](#footnote-ref-83)
84. Development of the Portal is envisaged by the Resolution of the Cabinet of the Ministers of the Republic of Uzbekistan # 232 dd. 07.08.2015. [↑](#footnote-ref-84)
85. Citizens budget is a simplified version of a budget document that uses the informal language, friendly formats to facilitate better understanding of the key budget elements to general audience. [↑](#footnote-ref-85)
86. Integrated national financing frameworks are a tool to finance national priorities and operationalize the Addis Agenda at the national level. A country’s sustainable development strategy lays out what needs to be financed. Integrated national financing frameworks spell out how the national strategy will be financed and implemented. (See: UN Inter-Agency Task Force on Financing for Development 2019 and refer to: <https://developmentfinance.un.org/2019-integrated-national-financing-frameworks-sustainable-development>) [↑](#footnote-ref-86)
87. Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB), World Bank Group (WBG) [↑](#footnote-ref-87)