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DEVELOPMENT FINANCE ASSESSMENT FOR THE REPUBLIC OF UZBEKISTAN

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The Analytical report “Development Finance Assessment for the Republic of Uzbekistan” has been prepared Mr. Gregory De Paepe, Independent Consultant within the framework of UNDP Project on “Financing for Sustainable Development in Uzbekistan” and with the support of the UN Resident Coordinator’s Office in Uzbekistan.

UNDP works in nearly 170 countries and territories, helping to achieve the eradication of poverty, and the reduction of inequalities and exclusion. We help countries to develop policies, leadership skills, partnering abilities, institutional capabilities and build resilience in order to sustain development results.

UNDP assistance to Uzbekistan is aimed at achieving common interrelated goals: supporting the Government in accelerating reforms in sustainable economic development, effective public administration, adaptation to climate change and environmental protection.

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ABBREVIATIONS

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
Amcham	American Chamber
AMIS	Aid Management Information System
BMGF	Bill and Melinda Gates Foundation
CCA	Caucasus and Central Asia
CMDA	Capital Market Development Agency
COVID-19	Corona Virus Disease
DAC	Development Assistance Committee
DFA	Development Finance Assessment
EBF	Extra-Budgetary Fund
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
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
MoEDPR	Ministry of Economic Development and Poverty Reduction
MoF	Ministry of Finance
MoJ	Ministry of Justice
MSME	Micro, Small and Medium Enterprise
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTRS	Medium-Term Revenue Strategies
NCDs	Non-Communicable Diseases
NDS	National Development Strategy
NGOs	Non-Government Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OOFs	Other Official Flows
PM	Prime Minister
POL	Petroleum, Oil and Lubricants
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
SAI	Supreme Audit Institution
SAMA	State Assets Management Agency
SBS	State Budgeting System
SDGs	Sustainable Development Goals
SOE	State-owned Enterprise
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
UZS	Uzbek Som
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

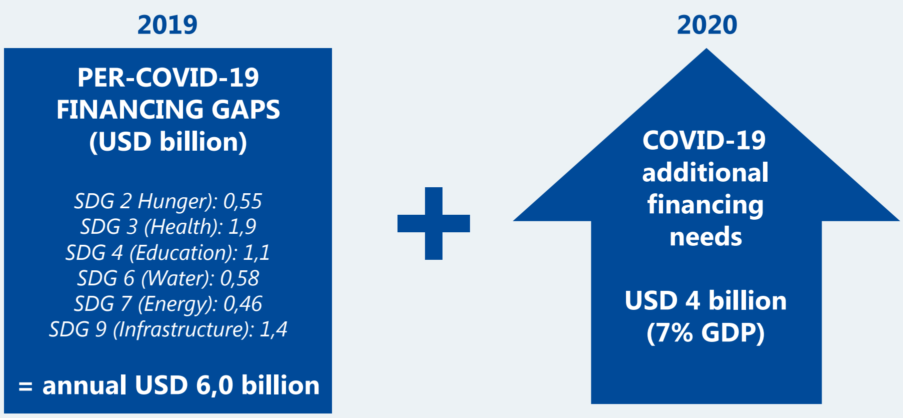
The UNDP Development Finance Assessment (DFA) is a tool to identify opportunities to mobilize additional finance sources and use existing financial resources more efficiently to achieve the Sustainable Development Goals (SDGs). Misalignment between the planning and finance policy functions of government, a narrow focus on public resources to finance the SDGs, and the participation of only a narrow group of stakeholders in the SDG financing dialogue and decision-making process are key challenges in many countries, including Uzbekistan. Through a process of informed dialogue, a DFA offers support for governments and their partners in identifying and building consensus around priority solutions to address these important financing challenges.

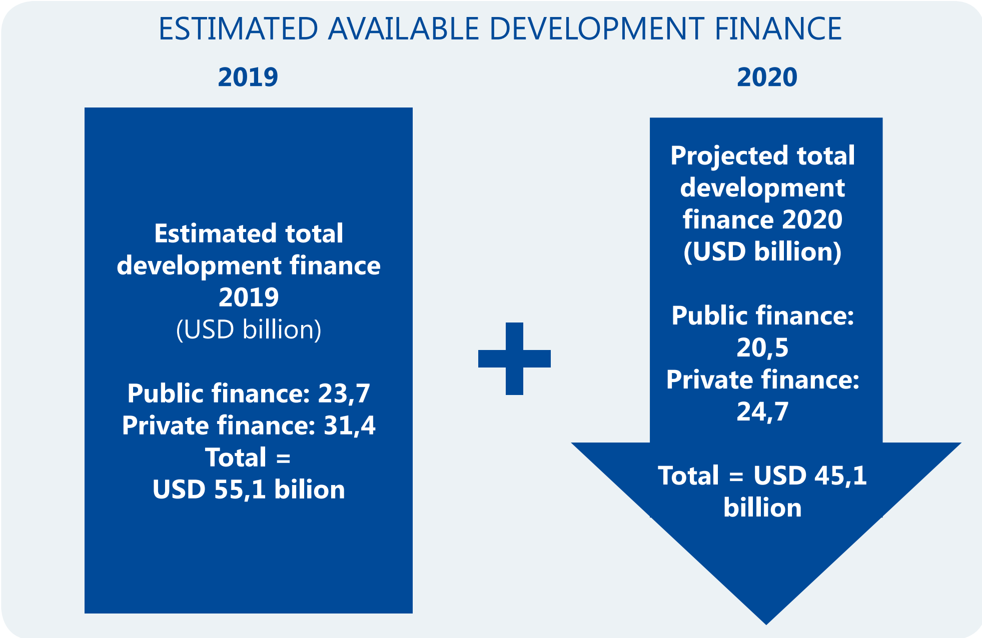
Uzbekistan's first DFA assesses the country's SDG financing architecture. It addresses critical knowledge gaps around the volume and trends of available development finance in the country considering current SDG progress and the impact of the unfolding COVID-19 crisis. It provides the context analysis for the UN SDG Fund's two-year Joint Programme (2020-2022) to implement priority SDG financing reforms in Uzbekistan. Finally, it aims to inform progress towards adopting an Integrated National Financing Framework (INFF), in support of a cohesive, nationally owned sustainable development strategies, as per the Addis Ababa Action Agenda.

The Government of Uzbekistan is strongly commitment to achieving the SDGs. In 2018, the 16 national SDGs and their 125 corresponding targets were adopted. Simultaneously, an inter-agency Coordination Council for implementing the national SDG Roadmap was established, along with the creation of a bicameral Parliamentary Commission on SDGs. The implementation of the SDGs in Uzbekistan coincided with large-scale reforms in the framework of the national Action Strategy for 2017-2021, which provides the pathway to achieving the SDGs. In 2020, Uzbekistan presented its first Voluntary National Review on SDG progress.

The COVID-19 crisis risks slowing down Uzbekistan's impressive SDG progress. The country's substantial informal sector is leaving a large amount of people vulnerable to the slowdown, driving up poverty and inequality. These socio-economic vulnerabilities are further compounded by environmental threats. In response to the pandemic, the GoU adopted an Anti-Crisis Program with a USD1 billion fund to support businesses and employment, and to expand social assistance to the most vulnerable.

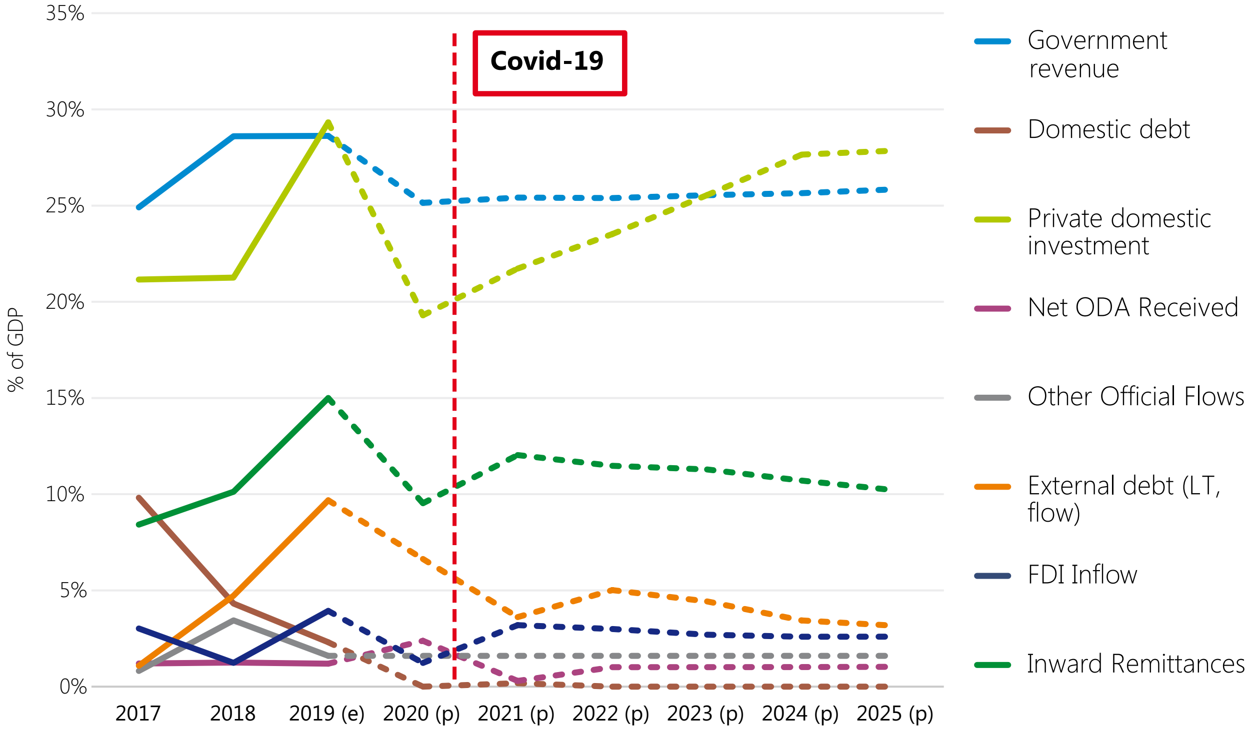
ESTIMATED SDG FINANCING NEEDS IN UZBEKISTAN





Already prior to COVID-19, Uzbekistan's available SDG financing was increasing too slowly to meet the country's financing needs. Estimates from 2019 revealed Uzbekistan needs at least an additional, annual investment of USD 6 billion to meet the nationalized SDGs. Now, in 2020, the IMF estimates addressing the external shock and the domestic impact of COVID-19 will require an additional external financing of about USD 4 billion, or 7 percent of GDP.

SHIFTING COMPOSITION OF DEVELOPMENT FINANCE IN UZBEKISTAN



Sources: Author's calculations based on IMF, OECD, Ministry of Finance of Uzbekistan and World Bank data.

Note: Estimates and projections account for the impact of COVID-19 as per the latest available IMF data in May 2020. See Annex 2 for the details on the hypotheses for estimates and projections from 2019 onwards.

The country's SDG financing gap is projected to further widen in the immediate future. This DFA projects development finance flows to decrease from USD 55.1 billion (94 percent of GDP) in 2019 to USD 45.1 billion (74 percent of GDP) in 2020. From 2021 onwards, total available development finance is projected to hover around 77 percent of GDP.

The composition of available development finance in Uzbekistan has changed since 2017. Government revenue and spending dominated development finance flows prior to the COVID-19 crisis, but their share in total development finance is stagnating. Private domestic investment is projected to become the largest flow in the immediate future, pointing to the importance of more effectively engaging the private sector for financing sustainable development in Uzbekistan. Remittances have kept growing and became an increasingly critical source of external international development finance, significantly larger than FDI and ODA combined.

Despite significant reform efforts Uzbekistan's public financing and planning system remains complex and inefficient. This undermines the effective financing of a sustainable and resilient recovery. Timely implementation of the updated PFM Reform Strategy is critical to progress towards performance-based budgeting and effectively mainstreaming a medium-term perspective across key budget documents and planning processes. There is significant scope to increase fiscal space for social spending to weather the impact of the COVID-19 pandemic, including through streamlining tax incentives and exemptions and improving public efficiency.

The below table summarizes the DFA's main recommendations for harnessing public SDG finance:

INCREASING PUBLIC FINANCE	• Adopt a Medium-Term Revenue Strategy. • Establish high-quality monitoring of tax benefits • Build capacity to tackle illicit financial flows. • Strengthen the financing of the National Health System.
MEASURES FOR A GREENER RECOVERY	• Identify and monitor public and private climate finance to Uzbekistan. • Consider reforming fossil fuel subsidies. • Strengthen resilience to the impact of climate risks. • Develop weather or catastrophe insurance schemes to mitigate against climate risks. • Integrate Strategic Environmental Assessments across policies, plans and programs.
IMPROVE THE EFFICIENCY OF PUBLIC FINANCE MANAGEMENT	• Incentivize inter-ministerial coordination and cooperation. • Improve SOE governance. • Make all existing budgetary data and information publicly accessible. • Strengthen effective enforcement of existing anti-corruption measures. • Introduce a more transparent system of intergovernmental fiscal transfers.
MAINSTREAM SDGs ACROSS BUDGETING AND PLANNING	• Integrate SDG across the Medium-Term Investment Policy Strategy. • Integrate SDG considerations into the Supreme Audit Institution's strategic activities.

INCREASING AID EFFECTIVENESS	• Establish a government-led development partner coordination mechanism. • Pool grants in a (sectoral) trust fund to untie aid and improve coordination.

Domestic private investment has been growing as a source of development finance in Uzbekistan. How much of it is state-led versus genuine commercial investments remains hard to identify. The many state-owned enterprises and banks distort the level playing field, critical to developing a thriving private sector. An underdeveloped banking and financial sector, combined with shallow and illiquid capital markets with high interest rates, limit SME access to credit and channeling domestic saving towards financing domestic investments.

The on-going political transition and economic liberalization underpins a slow uptake of FDI and ODA, albeit below their potential. Large infrastructure deficits and persistent perception of high levels of corruption, combined with ineffective dispute settlement mechanisms, limit potential FDI inflows. There remain significant knowledge gaps regarding the SDG alignment of non-commercial private flows, including remittances, philanthropy and faith-based finance. The COVID-19 crisis has significantly impacted the medium-term prospects of these critical international financial inflows to Uzbekistan.

The below table summarizes the DFA's main recommendations for harnessing private SDG finance:

MEASURES FOR A JOB-RICH RECOVERY	• Harmonize the COVID-19 SME support measures with an upgraded SME finance policy framework.
BOOSTING PRIVATE SECTOR INVESTMENTS IN INFRASTRUCTURE	• Diversify available bond offerings: green bonds and sukuk. • Develop innovative risk-sharing tools, such as credit guarantee schemes.
MAINSTREAM SDGs ACROSS INVESTMENT PROMOTION	• Mainstream the SDGs across the recently adopted PPP framework > People-first SDGs • Review the SDG alignment and coherence of the BITs and free trade agreements. • Integrate sustainable development criteria across the Investment promotion agency. • Set up a UN Global Compact Local Network
HARNESSING NEW SOURCES OF PRIVATE FINANCE	• Establish or expand initiatives to leverage remittances and the diaspora. • Explore the potential of philanthropy to fund SDG targets related to human development. • Access untapped sources of faith-based finance: Zakat.

Several cross-cutting institutional challenges limit strengthening Uzbekistan's SDG financing architecture. There is a lack of strategic knowledge regarding the nature and scope of the financing requirements to achieve the national development vision and the SDGs and there is no systematic monitoring of development finance trends. Uzbekistan's weak data ecosystem undermines monitoring the impact of different financing policies on the country's development results. The pandemic and the fast pace of economic reforms has stretched institutional and administrative capacity, compounded by slow progress in developing effective internal and external accountability mechanisms. Combined, these knowledge gaps and institutional limitations undermine a more coordinated and strategic approach to maximize the development impact of the country's scarce development resources.

The table below summarizes the DFA's main recommendations for strengthening the enabling environment for SDG financing:

ADDRESS KNOWLEDGE GAPS	• Conduct costing assessment of the national development strategy and priority Sustainable Development Goals and targets. • Monitor the contribution of public spending at the level of SDG targets, e.g. Rapid Integrated Assessment • Integrate the DFA into the annual budget process.
BUILD ADMINISTRATIVE CAPACITY	• Strengthen GoU's national statistics and capacity to effectively monitor SDG progress and corresponding financing strategies. • Building capacity and raising awareness of Parliamentarians regarding the gender and environmental dimensions of SDG financing.

Therefore, this DFA argues that financing a durable and resilient recovery from the pandemic requires developing a mid-term comprehensive COVID-19 recovery programme. Such a programme would support simultaneously addressing these cross-cutting challenges and deliver reforms across many aspects of public, private, domestic and international financing, to mobilise necessary investments.

Operationalising an INFF can strengthen national efforts to re-build better. It would bring together Uzbekistan's multiple on-going financing reforms, including the COVID-19 Anti-crisis measures, within a coherent, overarching framework that helps prioritizing the most strategic ways for financing building back better. It provides strategic guidance about the various public and private finance flows to be mobilized for achieving the nationalized SDG targets according to different financial flows' and stakeholders' comparative advantages.

This DFA's recommendations are to be reviewed, discussed and validated by the DFA Oversight Committee towards agreeing on next steps. This involves i) working out the practical details of the priority recommendations into an INFF roadmap; ii) convening a broad constituency of stakeholders to discuss and validate this INFF roadmap; iii) championing the INFF roadmap and its implementation among government actors and wider stakeholders; iv) identifying clear institutional ownership – for example by transforming the 'DFA Oversight Committee' into an 'INFF Oversight committee'. The UN Resident Coordinator's Office can drive this process by aligning it with the ongoing activities of the Joint UN SDG Fund's Joint Programme for establishing an INFF in Uzbekistan.

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. 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 these challenges 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). The onset of the COVID-19 crisis has slightly modified the scope of the DFAs. They now increasingly support operationalizing INFFs for building back better and transition to stronger, more resilient and inclusive sustainable development paths.

In the case of Uzbekistan, this DFA provides the context analysis for financing a durable and resilient recovery from the COVID-19 crisis in line with the country's longer term sustainable development priorities. It is the UN country team's main effort to date to address some of the critical knowledge gaps with regards to the available development finance in Uzbekistan and SDG financing opportunities and challenges.

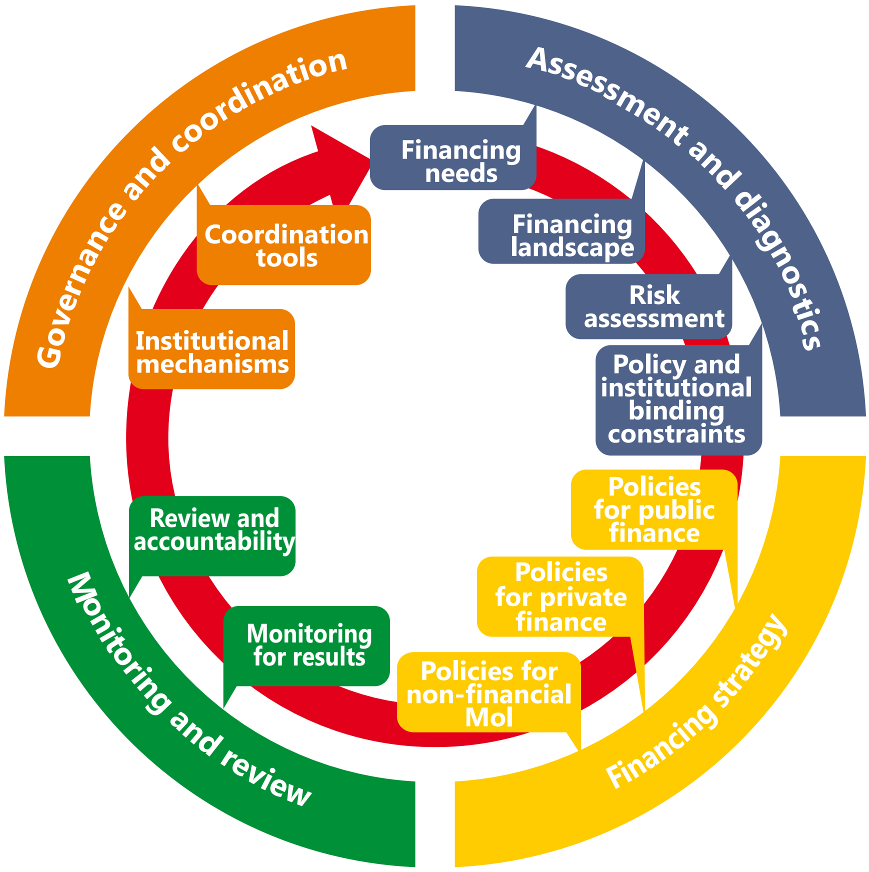
This up-to-date context analysis supports developing a consensual approach among government and its partners around what 'building back better' from COVID-19 means for Uzbekistan. Its key findings and recommended SDG financing reforms are closely interlinked with the implementation of the two-year Joint Programme of the UN Joint SDG Fund. This Joint Programme activities support accelerating SDG financing reforms in Uzbekistan and would represent the main institutional vehicle for implementing the INFF roadmap proposed by this DFA.

Structure of the analysis

The analysis starts with a brief stock-taking of Uzbekistan's sustainable development progress and context. It then assesses the five dimensions from the DFA: 1) trends in development finance flows to Uzbekistan; 2) alignment of the current state planning with the budgetary processes; 3) government policies and measures to harness private finance flows; 4) monitoring systems to track SDG finance and their link to development results; 5) availability and transparency of data for accountability.

The concluding chapter present the key findings of this DFA in the form of an INFF baseline, followed by a list of suggested SDG financing reforms for public finance, private finance and the enabling environment. These recommendations take stock of and complement the existing reform priorities and on-going support by development partners. In consultation with the GoU, these reforms can be developed into an INFF roadmap – a sequenced approached towards strengthening the INFF building blocks in the country (see Figure 1).

Figure 1 Building blocks to operationalize integrated financing frameworks



Source: UN Inter-Agency Task Force on Financing for Development 2019

SUSTAINABLE DEVELOPMENT CONTEXT

This section summarizes Uzbekistan's sustainable development progress and considers the known risks and challenges towards accelerating progress. At the time of writing, the full extent of the unfolding COVID-19 pandemic on Uzbekistan's impressive socio-economic progress was still to be appraised. Undoubtedly, COVID-19 presents the major threat to achieving the 2030 Agenda. This section's analysis therefore relies on the latest available data and figures from national and international sources.

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 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 percent (See Table 2), supported by a 34 percent year-on-year increase in investment, largely driven by direct lending to SOEs, and growth in the agricultural and manufacturing sectors (OECD, 2020). The COVID-19 crisis has slowed down growth significantly in 2020, however, to an expected 1.5 percent, according to the latest available IMF data[1].

Table 2 Uzbekistan: Selected Economic Indicators

Economic Indicators	Average 2000-16**	2017	2018	2019(e)	2020(p)	2021(p)
Real GDP growth, y-on-y (in percent)	6.8	4.5	5.4	5.6	1.5 – 2.0	7.0
Consumer Price Inflation (Year Average, percent)	13.8	13.9	17.5	14.5	12.6	10.6
General Gov. Overall Fiscal Balance (percent of GDP)	0.5	1.6	2.1	0.0*	(3.5)	(1.3)
Current Account Balance (percent of GDP)	4.0	2.5	(7.1)	(5.6)	(9.5) – (9.8)	(6.4)

Source: IMF, 2020. https://www.imf.org/external/datamapper/profile/UZB

* **Note:** Including policy lending, General Gov. Overall Fiscal Balance expanded to 3.9 percent of GDP in 2019.
** Uzbekistan's national data and statistics prior to 2017 are known to be inaccurate. The high average economic growth performance prior to the reforms is not comparable to the post-2017 data. The IMF revised its data series for Uzbekistan from 2017 onwards. Therefore, the DFA relies on international data from 2017 onwards.

Rapid credit growth, price liberalization, public wage adjustments, and high inflation expectations have maintained price pressures in 2019. Containing double-digit inflation presents a significant challenge to monetary policy response measures to COVID-19. It

[1] 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.

induces upward pressures on the already high interest rate, which makes private sector borrowing expensive. It erodes both citizens' purchasing power as well as their patience with the recently enacted economic reforms. The Central Bank of Uzbekistan (CBU) kept its benchmark interest rate unchanged at 15% during its May 2020 meeting. The GoU intends to limit inflationary pressures and achieve its constant inflation target of 5% by 2023 by continuing their tight monetary policy, containing credit growth and phasing out directed credit.

Uzbekistan's economy has traditionally been based on the exploitation of natural resources and agricultural exports[2]. These provided the authorities with significant export revenues and access to foreign exchange to finance its state-led development objectives. The mining sector remains largely in state hands, despite some joint ventures and foreign participation[3]. The country has started to explore its shale oil and gas potential and assessing its renewables potential, mostly wind and solar energy.

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 percent in 2018 to 5.6 percent in 2019 (IMF, 2020). Uzbekistan has built up substantial external buffers, with reserves at 13 months of imports, and external debt a moderate 35 percent of GDP at end-2018. Plummeting oil and gas prices, combined with a sharp fall in exports are projected to widen the current account balance to almost 10 percent of GDP in 2020, to be financed mostly by development partner assistance and international reserves. The COVID-19 response was partly financed by drawing down international reserves (USD 2.5 billion).

BOX 1: UZBEKISTAN'S COVID-19 RESPONSE AND RECOVERY MEASURES

Monetary policy: CBU decreased its policy rate by 1 percentage point mid-April to 15 percent. The bank also has offered several targeted refinancing operations for commercial banks (UZS 350 billion), but did not change regulatory, capital or liquidity requirements. CBU also suggested banks defer loan payments for firms in sectors affected by COVID-19. Consequently, state-owned banks are extending maturities of loan repayments for the affected sectors.

Economic support measure: 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.

Additional fiscal measures include: tax deferrals for most affected SMEs and individual entrepreneurs; a moratorium on tax audits and on bankruptcy procedures; a deferral of the scheduled increase of tax rates; an extension of tax declaration submission; 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; and the suspension of rent payments for the use of state property by business entities that have been forced to suspend their activities. The central government also asked local governments to reduce taxes by 30 percent and provide a 6-month grace period on paying property tax. 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).

[2] Uzbekistan has been the seventh largest gold producer in the world, and has significant reserves of natural gas and some minerals copper, zinc, led, tungsten and uranium)

[3] It is expected that restrictions on foreign engagement will be removed soon.

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 COVID-19 dynamics also severely affect 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, 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).

Uzbekistan responded swiftly to the first wave of COVID-19 infections by establishing an Anti-Crisis Fund to finance containment measures, expand social protection and support businesses and key sectors of the economy (see Box 1). To some extent this Anti-Crisis Fund contains both COVID-19 response and recovery measures, including significant share of investments in infrastructure and support to SMEs.

To date, the GoU hasn't yet developed a more comprehensive, strategic approach towards a durable and resilient recovery from COVID-19 designed to 'build back better', i.e. not only getting the economy and livelihoods back on its feet quickly, but also safeguarding prosperity for the longer term. This means triggering investments and societal changes that will both reduce the likelihood of future shocks and improve our resilience to those shocks when they do occur, whether from disease or environmental degradation (OECD, 2020b).

This DFA explores whether an INFF could be a good fit to support financing GoU's COVID-19 recovery efforts towards building back better. Building back better will require strategies that simultaneously address challenges and deliver reforms across many aspects of public, private, domestic and international financing, to mobilize the necessary investments. Operationalizing an INFF could achieve increased coherence across the COVID-19 response measures, including the multilateral response, the 'Action Strategy for 2017-21', and the medium-term Poverty Reduction Strategy Paper, currently being formulated. The DFA's main purpose therefore is to provide context analysis to shape the inception phase in the process of operationalizing such an INFF, and to identify priority SDG financing reforms in support of the UN SDG Fund's two-year Joint Programme to be implemented in Uzbekistan.

SOCIAL DEVELOPMENT

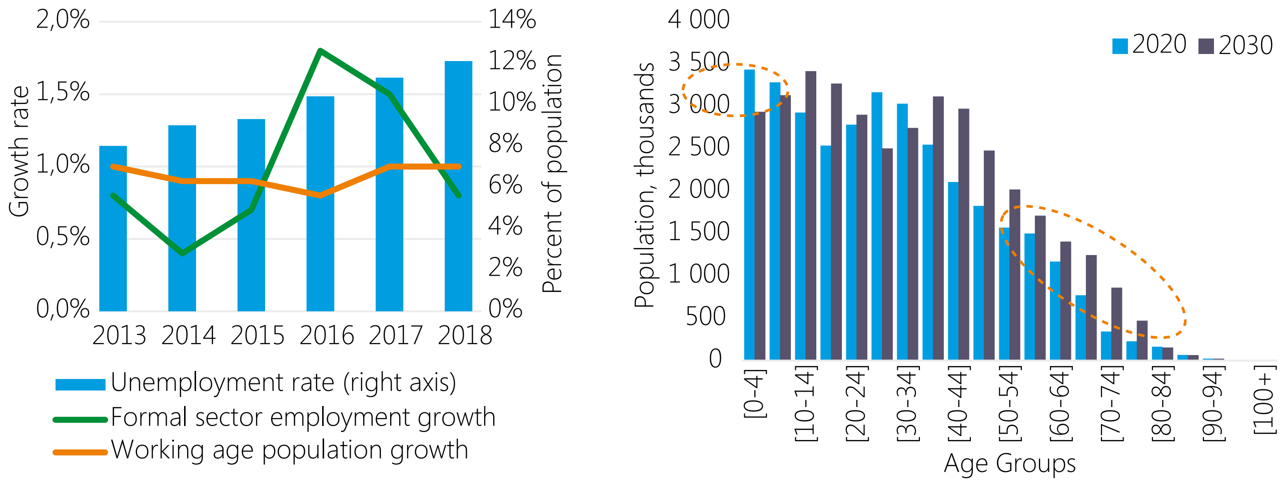
Uzbekistan made great progress in reducing poverty and inequality. The poverty rate declined from 27.5 percent in 2001 to 11.4 percent in 2018[4]. The latest available data estimates the official Gini coefficient to be 0.29 (World Bank, 2016) and the proportion of people with income below 50 percent of median income fell from 12.7 percent in 2010 to 7.8 percent in 2018. In the short-term, however, poverty is expected to rise in 2020 because of the COVID-19 crisis[5]. To accelerate poverty reduction the GoU is preparing a Poverty Reduction Strategy Paper.

While the country was on course to achieve the poverty and inequality goals prior to the COVID-19 crisis, 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 labor markets, tertiary education, decision-making, and business opportunities. The World Bank survey 'Listening to the Citizens of Uzbekistan', conducted in June, provides relevant insights to

[4] http://nsdg.stat.uz/en/databanks/indicator-table?id=1.2.1

[5] 1.3 percent of the population, or 448,000 people, may already have fallen into poverty because of the crisis (Consolidated Multilateral COVID-19 Socio-Economic Response & Recovery Offer 2020)

Figure 2 Labour Market Structure and Demographic Trends in Uzbekistan



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

develop differentiated COVID response and recovery measures according to citizens' needs. The survey could be conducted monthly to monitor the socio-economic impact of COVID and response measures on households' livelihoods[6].

Between 2000 and 2018, Uzbekistan's HDI value increased by 19.2 percent from 0.596 to 0.710, placing it in the 'high human development category'[7]. 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.

Unemployment is on the rise and the growth rate of formal employment has been decreasing in recent years (Figure 2). The dependency ratio is projected to peak in 2022 at 51.15, up from 47.96 in 2014. According to the Ministry of Labor, only 5.7 million people are employed in the formal sector out of 19 million in the labor force[8].

The country's substantial informal sector is leaving a large amount of people vulnerable to the slowdown. The ongoing restructuration of the SOEs increases the labor supply which, in combination with returning migrants due to the COVID-19 crisis, may further exacerbate difficulties to create sufficient jobs (IMF, 2019). This bourgeoning working-age population and the significant informal sector calls for a more job-rich and inclusive COVID-19 recovery[9]. Accelerating formal job creation would in turn generate additional revenue for the National State Budget.

Deficiencies in provision of material and technical base in the education system result in a poorly trained labor force and uneven territorial distribution of demand for various professions[10]. 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

[6] To provide the government with timely evidence to guide the policy response, a new high-frequency survey – the Nigeria COVID-19 National Longitudinal Phone Survey (COVID-19 NLPS) – has been initiated in Nigeria. This survey is being implemented by the National Bureau of Statistics with technical support from the World Bank and is designed to measure and monitor the economic and social impacts of the COVID-19 crisis by tracking households' welfare and behavior every month over a period of 12 months.

[7] 2019 UNDP Human Development Report.

[8] Official unemployment in 2019 was 9.0 percent.

[9] About 200,000 to 250,000 people enter the labor market every year (GoU, 2020).

[10] Threats identified by the GoU's draft Concept 2030.

jobs beyond their specialization. At the same time, regions with labor surplus suffer from growing unemployment due to a high supply of the labor force.

ENVIRONMENTAL DEVELOPMENT

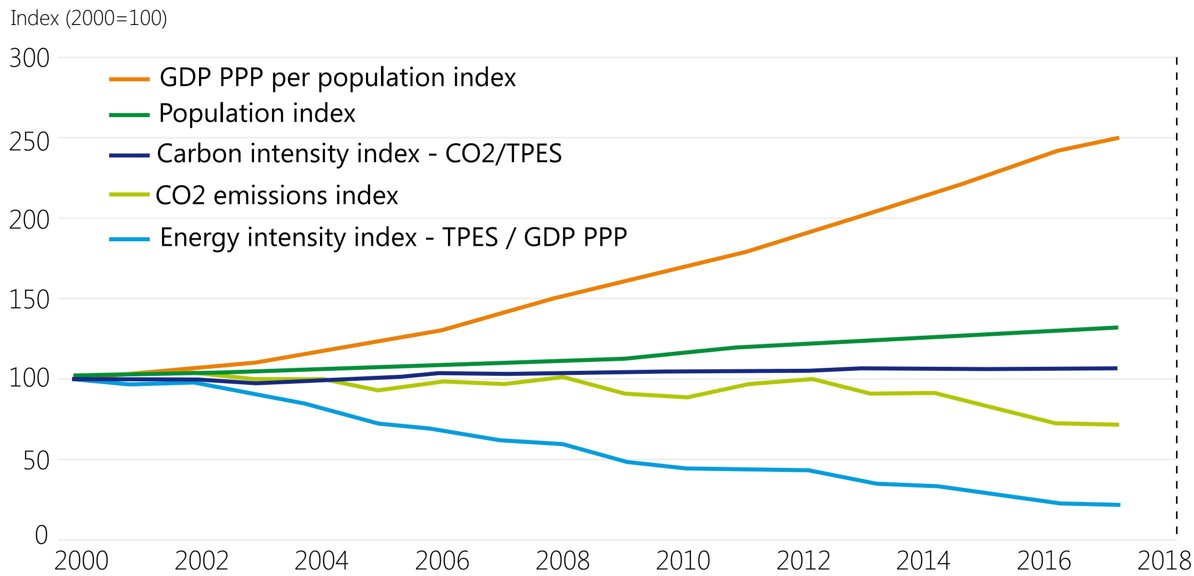
With a traditionally resource-based economy, unsustainable use of natural resources and climate change pose a cross-cutting threat to achievement of national SDGs. Without additional resource saving measures, the country may face deficiency of water resources, growth in land desertification and degradation, 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).

The occurrence of natural disasters, compounded by climate change represent significant risks to key drivers of the economy and threaten to reverse recent gains in human welfare. 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. More investments in disaster risk reduction and preventive measures may therefore be needed to reduce such vulnerabilities and increase resilience of communities, but also to protect economic growth and development gains to build back better.

Uzbekistan is the only country in Central Asia where greenhouse gas (GHG) emissions have remained relatively stable since 1990 and then decreased towards 2018 (Figure 3). Emissions of NO^2 declined due to increased use of organic fertilizers, However, in Tashkent, Farghona and Olmaliq, NO^2 and particulates exceed recommended levels, along with high levels of heavy metals from waste burning, fuels, metallurgy. Methane emissions increased almost constantly due to growth in the agricultural sector (emissions from livestock, manure) and in the population (waste).

Thus, Uzbekistan's agricultural sector nicely illustrates these tensions between economic, social and environmental policy objectives, which the 2030 Agenda aims to reconcile: increasing agricultural productivity can achieve poverty reduction in rural areas, but when achieved through the heavy use of agricultural chemicals it degrades the air quality in

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



Source: International Energy Agency, 2020 those rural areas (UNEP, 2015), thus directly affecting health and environmental outcomes. Adopting an INFF can support identifying and addressing similar policy trade-offs towards achieving such a reconciliation.

Uzbekistan is one of the most energy inefficient countries in the Eastern European and Central Asian region. Current GDP's energy intensity of Uzbekistan is twice the average global level. The GoU (2020) projects electricity consumption to increase by 1.8 times by 2030, along with gas consumption (1.7 times) and POL consumption (2.1 times). Uzbekistan's ageing electricity infrastructure struggles to meet growing domestic energy demand. Industry and agriculture are among the largest power consumers in the country and the largest sources of energy inefficiencies due to outdated technologies and high reliance on water pumping.

Historically, investments in the country's energy infrastructure suffered from a lack of well-elaborated medium- to long-term overall energy policy directions and related strategies (IEA, 2015). This is expected to change with the adoption of several critical policy documents, including the 'Strategy on the Transition to a Green Economy' in 2019 and a special resolution "On additional measures to reduce the dependence of sectors of the economy on fuel and energy products by increasing the energy efficiency of the economy and using available resources" in July 2020. The Ministry of Economic Development and Poverty Reduction is the designated authority for the promotion and implementation of the green economy in Uzbekistan, supported by a special interdepartmental commission. In addition, the new 'Concept for ensuring reliable energy supply to Uzbekistan towards 2030', adopted in 2020, sets out specific energy targets for thermal, wind, solar and nuclear energy.

The financing of this green transition and reliable energy relies explicitly on attracting foreign investment, loans and grants from international financial institutions, foreign governmental financial organizations and other foreign grantors[11]. Investments in energy efficiency and renewable energy sources are high priority from both economic (decrease in costs for energy generation) and climate viewpoints (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" identifies key sectors of economy (electric energy, thermal energy, housing and utilities sectors) that are the main contributors to GHGs emission in Uzbekistan. To this end, strengthening the institutional capacity, and improving the legal framework, of the renewable energy sector is critical to achieve these long-term SDGs.

Meeting these financing needs and policy targets requires a coordinated and coherent approach that harnesses private finance, sector regulatory reforms and the COVID-19 recovery stimulus. Operationalizing an INFF would greatly support this by leveraging the inter-agency council on climate change, chaired by the Deputy Prime Minister, to bring together these different stakeholders and support high-level discussions and coordination on climate change and CDM projects.

SDG FINANCING NEEDS AND PRIORITIES

Prior to the COVID-19 crisis, the IMF estimated Uzbekistan needed *additional* annual spending of roughly 7.9 percent of GDP to reach SDGs in social and infrastructure sectors by 2030 (3.4 percent of GDP for SDG 3 on health, 2.4 percent of GDP on SDG 9 road infrastructure,

[11] 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 percent by 2030.

1.0 percent of GDP on SDG 6 water, 0.8 percent of GDP on SDG 7 electricity and 0.3 percent of GDP on SDG 4 education).

Uzbekistan currently also faces the largest infrastructure capacity needs in the region. The road sector presents a sizeable backlog in deferred maintenance estimated at USD 1 billion per year (SDG9.1) (OECD, 2019b)[12]. ESCAP (2019)[13] estimated the additional infrastructure investment needs for clean water and sanitation, transport, and ICT, along with the costs to enhance climate resilience to be about 4.6 percent of GDP. The energy sector (SDG7) also faces large inefficiencies, costing the economy around USD 1.5 billion per year, while the costs associated with the poor quality of existing water and irrigation infrastructure (SDG6 and SDG2.4) are up to 8% of GDP per year (World Bank, 2016). The Uzbekistan Fund for Reconstruction and Development and the Republican Road Fund finance an important share of the GoU's centralized investment.

Underperforming infrastructure is a binding constraint to Uzbekistan's economic diversification and growth. The revision of the Investment Program towards funding infrastructure projects of the highest priority that provide opportunities for development of entrepreneurship and ensuring employment of the population as part of the response to the COVID-19 crisis is an opportunity to address the most critical infrastructure constraints to enable a greener and more durable recovery. Such efforts would benefit from developing a holistic and coordinated, mid-term recovery program.

Demographic trends are also expected to underpin growing social spending needs. For example, prior to the pandemic, the IMF calculated the required increase in pension spending between 2015-2030 amounts to an estimated 4.0 percent of GDP (SDG1.3 and SDG10); while the required increase in healthcare spending between 2015-2030 amounted to 0.6 percent of GDP (SDG3) (IMF, 2019). Furthermore, despite rapid pre-pandemic increases in per capita income and poverty reduction, the country faces pervasive regional inequalities and lags its regional peers regarding human development (SDG10). Additional investments in renewables and energy efficiency measures will also be required to mitigate and adapt to climate change, and safeguard rural livelihoods (SDG7.2 and SDG13).

Acknowledging the methodological limitations of these types of comparative SDG costing analyses, they do reveal that bridging the financing gap will require significant additional and sustained resource mobilization efforts from both public and private resources. Furthermore, these pre-COVID estimates have likely become too optimistic: addressing the external shock and the domestic impact of COVID-19 is expected to require additional external financing of about USD 4 billion (7 percent of GDP) according to the IMF (2020).

The strong fiscal pressures emanating from the COVID-19 crisis threaten fiscal space for social spending over the medium-term (box 2). Therefore, a key message emerging from this DFA is the importance of safe-guarding social spending, within a context of scarcity of resources and competing spending priorities, to protect the country's SDG progress. In response, the GoU's COVID-19 stimulus package includes several measures to rapidly increase social spending.

Current levels of public investment by the GoU will not suffice to bridge this financing gap. In 2018, consolidated government capital spending – both on-budget and off-budget – amounted to 5.2 percent of GDP (World Bank, 2019). This is below the 7.7 percent of GDP

[12] Road infrastructure capacity should increase by 486% by 2030 and by 1365% by 2050 to meet the expected volume of freight that will pass through Uzbekistan. By 2050, the share of road traffic is expected to increase by 50% from less than 30% in 2015.

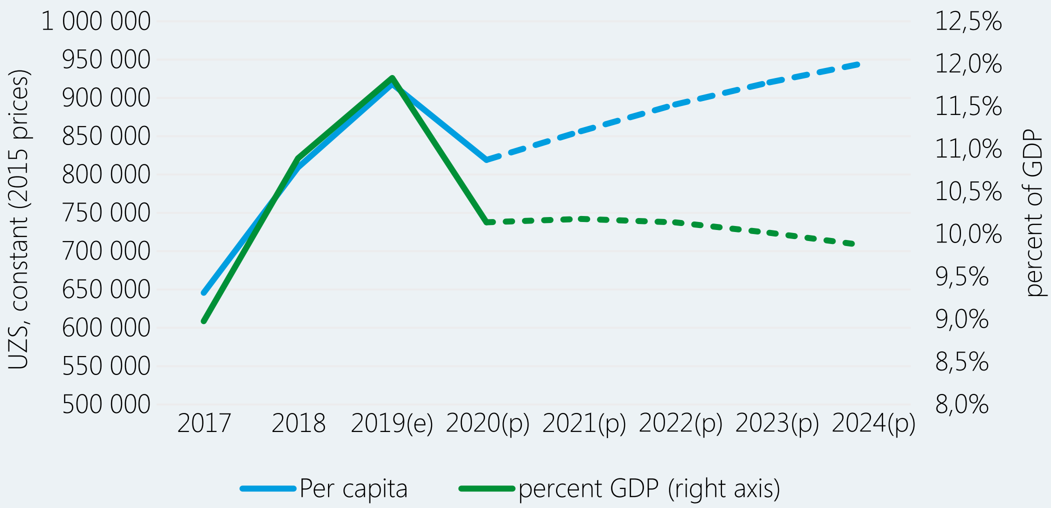
[13] https://www.unescap.org/publications/economic-and-social-survey-asia-and-pacific-2019-ambitions-beyond-growth

BOX 2 THE IMPERATIVE OF SAFEGUARDING SOCIAL SPENDING

The COVID-19 pandemic is significantly impacting Uzbekistan's economy, reducing growth, and creating additional external and fiscal financing needs. Even in an optimistic scenario, with growth resuming in 2021, fiscal policy will likely require several years to accommodate the impact of the pandemic on Uzbekistan's public finances. This transforms the very nature of the broader SDG financing discussion. In a likely more austere immediate financing future, priorities are shifting towards financing improved recovery from the COVID-19 crisis. This puts SDG financing at risk from potential spending cuts to curtail budget deficits in coming years.

Our analysis reveals the pandemic's potential impact on available social spending per capita and as a share of GDP for 2020 and beyond, under a business-as-usual scenario (based on the latest available macro-economic projections from the IMF). This reveals that maintaining the same budget share for social spending as the share for 2020 pre-COVID-19, available social spending per capita would recover to its 2019 levels only by 2023 (Figure 4). Meanwhile, as a share of GDP, social spending is expected to slowly decline to below 10 percent of GDP by 2024. Therefore, this DFA points to the need for additional detailed analysis of COVID-19 pressures on social spending and the public budget as part of the GoU's holistic financing strategy for the COVID-19 recovery.

Figure 4 Projected COVID-19 impact on social spending



Source: Author's calculations, based on MoF and IMF data.

Note: For 2020, the State Budget planned to spend 49.6 percent on social expenditure (UZS 65,049 billion) prior to the onset of the COVID-19 crisis. This share was applied to the projected consolidated

average of regional comparators and the lower limit of the public investment level that the Growth Commission Report[14] identified as a feature of fast-growing economies. Significant increases in public investment will therefore require both mobilizing additional public revenue as well as ramping up spending efficiency. The COVID-19 pandemic complicates mobilizing additional domestic revenue in the short term (see next chapter).

Furthermore, for capital spending to translate into productive capital requires strengthening the legal, institutional, and procedural elements of public investment management. ESCAP (2019) estimates cumulative savings of up to 50 percent could be achieved in infrastructure investments by strengthening project appraisal, selection and management, coordination among government branches and a steady flow of resources for maintenance[15]. Improving

[14] 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

[15] Calculated for all ESCAP member countries. Considering Uzbekistan's very weak governance indicators, potential efficiency savings for Uzbekistan are likely to represent that order of magnitude.

public investment management can intensify positive interactions across SDGs[16], resulting in a reduction of the long-term investment needed for achieving the goals. The opposite is also true. Unless Uzbekistan ensures that progress in one area does not come at the expense of another, long-term investment needs may increase further.

Some public services and SDGs are by their nature reliant on public funding, such as education, health, climate change adaptation and conservation, while others offer greater potential for private financing - infrastructure sectors, such as information and communications technology, power and renewable energy. Establishing priorities for each type of finance flows would require a better understanding of the degree of SDG alignment of each finance flow and their contribution to Uzbekistan's development results. Strengthening the monitoring systems of financing policies would address this important knowledge gap (see dimension 4) and inform an optimal allocation and prioritization of SDG financing.

Operationalizing an INFF would provide strategic guidance about the various public and private finance flows to be mobilized for achieving the nationalized SDG targets according to different financial flows' and stakeholders' comparative advantages. It could underpin an evidence-based national consensus on the ideal financing mix, making best use of each flow's comparative advantage to contribute to best contribute to specific SDGs, towards achieving the 2030 Agenda. This DFA provides an initial overview of Uzbekistan's development finance context and puts it into perspective with the identified financing needs (see the overview table in Annex 3).

[16] Health outcomes, for instance, depend not only on health-care services but also on nutrition, water, sanitation and air quality; thus, investments in these other areas could deliver health co-benefits.

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 analyzes Uzbekistan's financing trends. It builds as comprehensive a picture as possible of available public and private resources, flows and financial instruments (box 3). It first provides the financing outlook of all available development finance flows to Uzbekistan and puts it in perspective with known financing needs to achieve the SDGs. It then reviews each individual development finance flow and main actors. The findings from this chapter inform the INFF's building block "*assessment and diagnostics*".

BOX 3. WHAT DOES THE DFA INCLUDE UNDER DEVELOPMENT FINANCE?

The DFA undertakes a uniquely holistic analysis of public and private finance in its broadest sense. Development finance as analysed by the DFA can be grouped into four broad categories, according to whether they are public or private in nature and sourced domestically or internationally:

- Domestic public: government resources that originate from domestic sources, like non-grant government revenue and government borrowing from domestic sources
- Domestic private: private sector resources that originate from domestic sources, like private sector borrowing from domestic sources and domestic philanthropy or spending by NGOs
- International public: government resources that originate from international sources, including ODA, south-south cooperation, other official flows from 'donor' countries, borrowing from foreign bilateral and multilateral institutions and foreign private entities that is received or guaranteed by the state
- International private: private sector resources that originate from international sources, like FDI, portfolio investment (equity), private borrowing from international sources, remittances and international philanthropy or spending by INGOs

It is understood that not all this available finance contributes to actual development results in the country. Therefore, the DFA analyses the existing performance monitoring systems that enable linking specific financing flows to the intended development results.

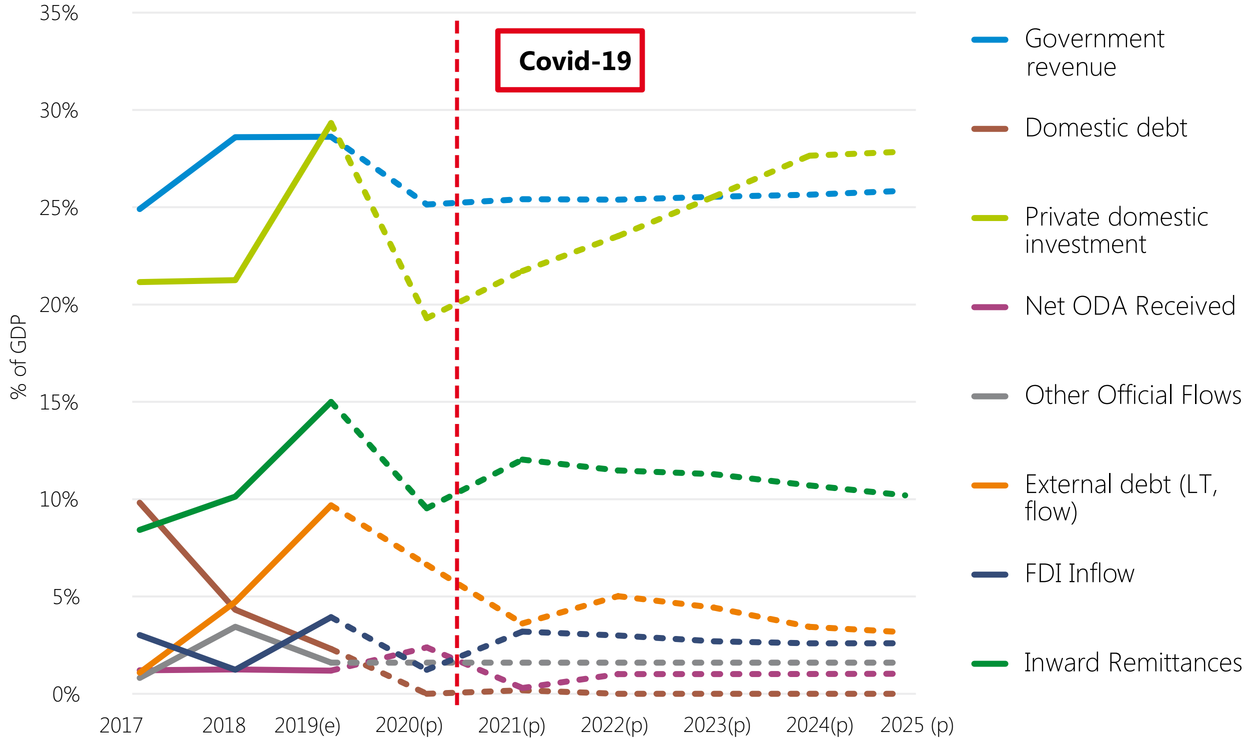
OVERVIEW OF TOTAL DEVELOPMENT FINANCE

Figure 5 presents the evolution and projections for each development finance flow in Uzbekistan. These projections account for the likely impact of the COVID-19 crisis on each one of these flows, based on the latest available data from national and international sources. This figure provides the 'big picture' of the evolution of development finance flows in Uzbekistan. This chapter assesses each one of these development flows in more detail. It is important to note these graphs start in 2017 because of missing adequate time series to analyze trends prior to 2017[17]. (For illustrative purposes, Annex 2 provides data tables that go back to 2013)

Government revenues have traditionally been the largest source of development finance in Uzbekistan. They represented 27.8 percent of GDP in 2018, down from 30.3 percent in

[17] Dimension 4 highlights the main shortcomings of Uzbekistan's national data ecosystem.

Figure 5 Overview of Development Finance Flows, Uzbekistan



Sources: Author's calculations based on IMF, OECD, Ministry of Finance of Uzbekistan and World Bank data.

Note: Estimates and projections account for the impact of COVID-19 as per the latest available IMF data in May 2020. See Annex 2 for the details on the hypotheses for estimates and projections from 2019 onwards.

2013 (Figure 5). Authorities can more easily allocate public finance flows to achieve their intended development outcomes than private finance flows, whose allocation and use can only be influenced indirectly by authorities. Therefore, a critical aspect of any INFF involves maximizing the developmental impact of public spending through increasing its efficiency and SDG alignment.

The 2019 strong increase of private domestic investment[18] was reversed in 2020 due to the impact of the covid-19 crisis. Based on author's calculations using IMF projections of gross fixed capital formation for 2020-2025, private domestic investment is projected to increase in relative size. However, the financing from private domestic investment likely overestimates the real contribution of domestic commercial investment in the country because state-owned enterprises (SOEs) represent about 40 percent of Uzbekistan's GDP[19]. There is no aggregate data available that would allow easily singling out the contribution of SOEs to development finance and separate them from commercial investors.

The direct implication of this significant government participation in the economy is that the GoU may exert significant influence over the use of a significant share of its available total development finance (the sum of government spending and SOE controlled private investments). This raises the important issue of transparency regarding how GoU manages and monitors its SOEs vis-à-vis their contribution to sustainable development objectives.

A critical finding from this DFA is the steady rise of remittances as the third largest development finance flow in Uzbekistan. They are projected to remain larger than FDI,

[18] Proxied here by gross fixed capital formation by the private sector.

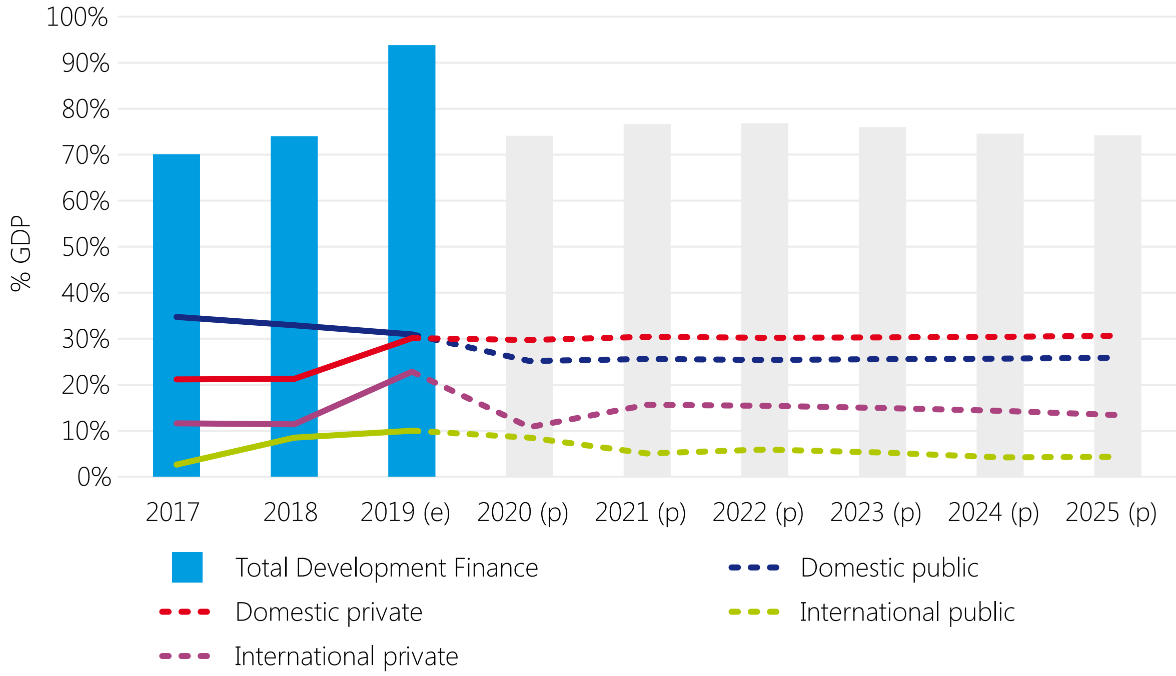
[19] SOE investments are included within this private investment data, proxied by Gross fixed capital formation by the private sector.

external debt and ODA combined. This points to the critical role remittances could play in financing the COVID-19 recovery, and an approach to maximizing their development impact.

Aggregate development finance

In 2018, the total amount of development finance flows to Uzbekistan amounted to USD 37.4 billion in 2018[20], equal to 74 percent of GDP (see Annex 1). Cautious estimates for 2019 point to a significant increase of total development finance to 94 percent of GDP, driven by international private inflows (FDI and remittances) and an uptake of domestic private investment (Figure 6). However, the COVID-19 crisis is projected to temporarily reverse this positive trend. Based on IMF data and the author's calculations, this DFA projects development finance flows to decrease to 74 percent of GDP in 2020, and remain at around 77 percent of GDP for the medium-term.

Figure 6 Outlook for different categories of development finance, Uzbekistan



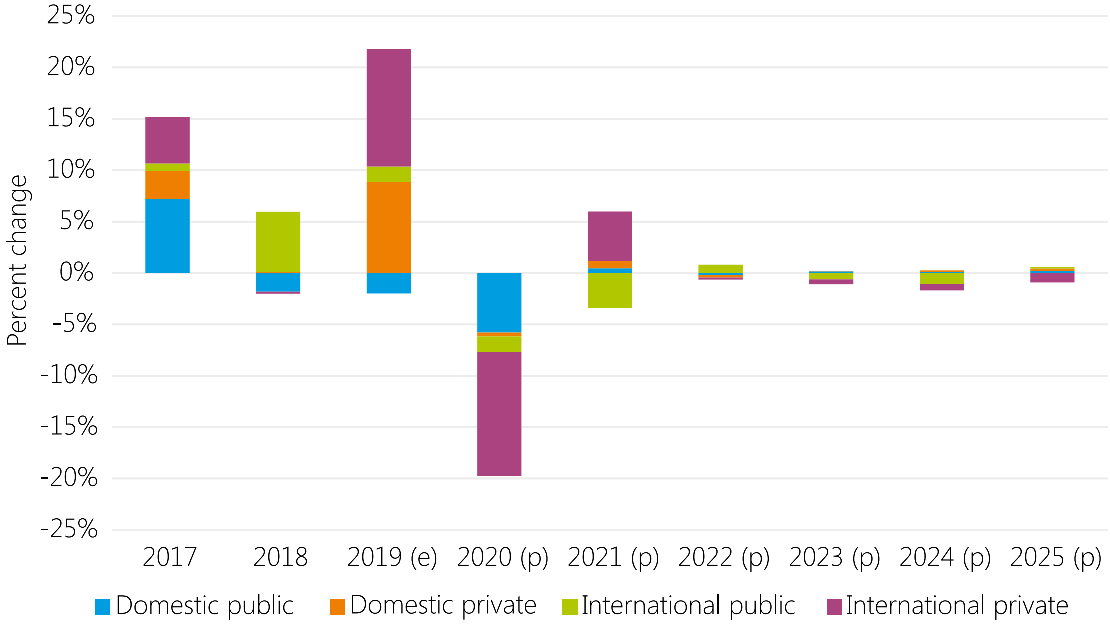
Sources: Author's calculations based on IMF, MoF, OECD and WB.

Note: See methodological Annex for details on the composition of the aggregate financial flows, sources, estimates and projections. Estimates and projections account for the impact of COVID-19 as per the latest available IMF data in May 2020.

The composition of available development finance in Uzbekistan has witnessed significant changes since 2017 (Figure 7). The share of international public finance, mostly ODA and international public debt, increased significantly following the onset of major economic reforms and foreign policy shift. The economic performance of Russia influences remittances significantly. FDI inflows have also been erratic and below expectations, though trends prior to the COVID-19 suggested that foreign investment had begun to increase.

[20] Roughly equivalent to UZS 300,000 billion.

Figure 7 Contribution to the evolution of development finance



Sources: Author's calculations based on IMF, MoF, OECD and WB.

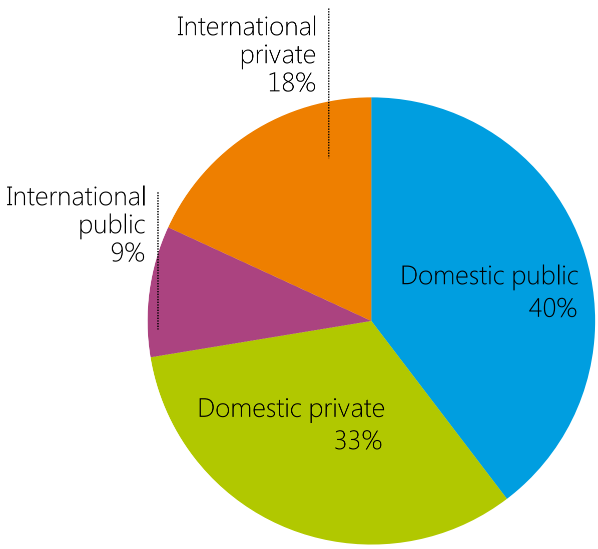
Note: Estimates and projections account for the impact of COVID-19 as per the latest available IMF data in May 2020.

Domestic financial flows, both public and private, dominate the total available development finance in Uzbekistan. Together they represented over three quarters of total development finance over the period of 2017-2020

This DFA reveals a growth trend of development finance flows at par with the onset of the country's extensive reform agenda. The COVID-19 pandemic put an abrupt halt to this trend, as it significantly affected private financial flows which underpinned this recent growth in available development finance:

- Prudent projections of total development finance flows for 2020 point to a year-on-year absolute decline of 17 percent in 2020, equivalent to USD 9.3 billion.
- The decline in remittances, FDI and portfolio inflows account for 62 percent of this decline. Efforts to attract foreign investment – through PPPs and the imminent launch of an ambitious SOE reform and privatization strategy – will be disrupted by the highly uncertain economic condition. Remittances suffer from the global economic slowdown and lockdown.
- Tax revenues are projected to fall by 2.5 percentage points of GDP. About two-thirds of tax revenue losses are estimated to be from the direct

Figure 8 Composition of Development Finance Flows (2017-2020), Uzbekistan



Sources: Author's calculations based on IMF, MoF, OECD and WB.

economic impacts of the COVID-19 crisis, and the rest from announced tax relief measures. Quarantine and restrictive measures lead to a significant reduction in economic activity and, as a result, lower anticipated tax revenues. Anti-crisis measures, such as tax payment deferrals, payment by instalments and tax exemptions will also result in lower tax revenues in 2020.

- On the upside, the consolidated UN-IFIs financial support package, worth USD 3.5 billion – equivalent to 7.8 percent of total development finance in 2020-, cushioned the decline of total development finance and supported the GoU's pressing financing needs.

PUBLIC DOMESTIC FINANCIAL FLOWS

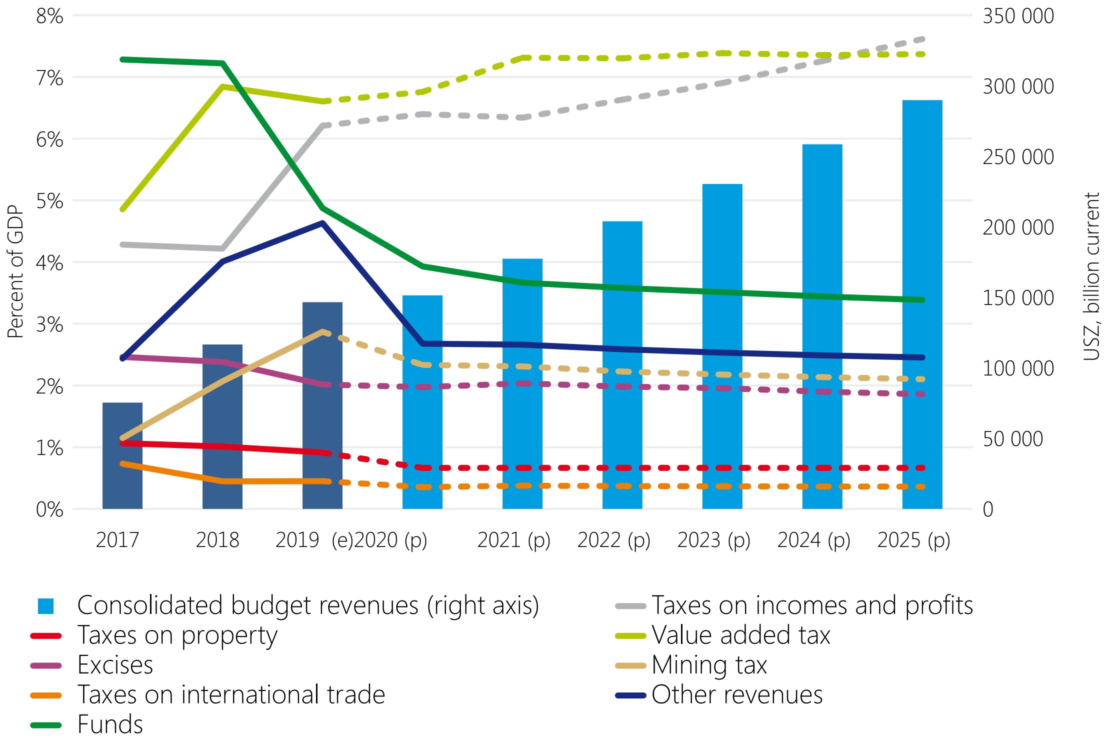
This subsection assesses financing trends of domestic public finance, comprised of government revenue and domestic public debt.

Government revenue

In 2019, consolidated government revenue (tax revenue, non-tax revenue and contributions to the social security fund) in Uzbekistan amounted to an estimated UZS 146,548 billion (Figure 9). This was equivalent to 28.6 percent of GDP, up from 24.9 percent of GDP in 2017. In 2018-19, the authorities introduced ambitious tax reforms aimed at helping stimulate economic activity, supporting more efficient revenue collection, and simplifying tax administration. Despite the lower tax rates, the tax reform significantly improved compliance enabling to maintain the same tax ratio of 28.6 percent of GDP in 2019. Higher commodity prices also underpinned government revenue in 2019.

For 2020, the consolidated revenue-to-GDP ratio is estimated to decline from 28.6 percent of GDP in 2019 to 25.1 percent of GDP in 2020. The IMF projects the consolidated government revenue to remain below 26 percent of GDP by 2025. These figures do not

Figure 9 Composition of Government Revenue, Uzbekistan



Source: IMF, 2020.

Note: projections account for the impact of COVID-19.

include all revenue and spending from the many extra-budgetary funds and SOEs which are yet to be consolidated into the budget, however. For example, the World Bank (2019) estimated that consolidated government spending including the off-budget spending amounted to 35.2 percent of GDP in 2018. Authorities introduced a "general fiscal balance" indicator in their 2020 budget to fully account for the general government revenue.

Value-added taxes (VAT) are the largest component of Uzbekistan's tax mix. VAT and excises represent close to 80 percent of indirect taxes. These taxes tend to be regressive with a disproportionate impact on the poorest segments of the population and informal businesses. Since January 1, 2019, Uzbekistan has switched to a flat scale of income tax.

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[21]. Importantly, they were introduced without a cost-benefit analysis and bypass the regular parliamentary process. Significant measures aimed at streamlining tax benefits and tax exemptions were taken in recent years. Further progress would be required in establishing high-quality monitoring. To support the covid-19 recovery there may be scope for considering temporary tax breaks for critical areas of activity.

The focus of the recent major tax reforms has been on reducing the tax burden for SMEs and simplifying tax compliance. Fiscal policy measures included 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. Administrative improvements include the online tax platform, run by the State Committee on Taxation, in combination with clear communication and taxpayer education through the Citizens Budget initiative. These combined improvements underpinned the gradual increase of the World Bank's Paying Taxes score from 52.3 in 2015 to 69.9 in 2020. While paying taxes have become easier, they remain time-consuming (World Bank, 2019).

Revenue of subnational governments

In Uzbekistan subnational governments[22] act as extensions to the central government and play an important role in providing public services in Uzbekistan. During 2013-2019, they implemented around 34 percent of national public spending (56 percent of total national spending when excluding extra budgetary accounts). Their spending is concentrated on education (43 percent), healthcare (21 percent), and public services (15 percent). Capital spending, in contrast, accounted for only 7 percent of total subnational expenditure (World Bank, 2019).

In addition to local taxes (fixed revenue), the local budgets are financed through i) transfer of revenues and expenditures between levels of the budget, as well as ii) intergovernmental fiscal transfers in the form of subventions, transferred proceeds, government grants, intergovernmental settlements and targeted social transfers. For 2020, fixed revenue represented 46 percent of total planned local expenditures across all regions and revenue transfers represented 39 percent (GoU, 2020). The equalization grants cover the remaining financing gap for specific regions.

[21] The authorities report that 17,246 enterprises benefited from UZS 9.3 billion in tax incentives through the tax code, while 21,355 enterprises benefited from UZS 6.4 billion in tax incentives through government decisions (WB, 2019).

[22] Subnational governments here refer to the 12 regions (viloyat), one autonomous republic (Republic of Karakalpakstan), and one independent city (City of Tashkent); and (iii) 40 cities or urban districts and 162 rural districts, which are further subdivided into towns and villages.

Local taxes make up the remaining revenue of subnational governments, mostly gasoline tax, property tax and land tax in agriculture. Property taxes represented 18.5 percent of local tax collection, 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.

To date, the allocation of intergovernmental transfers was complex and highly discretionary. The balanced budget criterion incentivized regions to overstate their planned expenditures, while understating revenues. Also, subnational governments did not receive budget allocation information prior to the Presidential Decree confirming the approved appropriations. This system undermines local accountability and efficiency in the use of resources (World Bank, 2019).

Furthermore, subnational governments are not permitted to run budget deficits. They can increase their expenditures only if 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 other sources.

The 2020 Citizen Budget signals the GoU's strong intention to introduce a more transparent system of intergovernmental fiscal transfers. The World Bank (2019) recommends increasing the predictability of transfers by introducing rule-based allocation mechanisms, reviewing and clarifying expenditure assignments across the different levels of government, and providing greater fiscal autonomy to subnational governments.

State-Owned Enterprises

The Uzbekistan Fund for Reconstruction and Development (UFRD)[23] is the country's largest state development fund. The GoU established the UFRD in 2006 to sterilize and accumulate foreign exchange revenues, albeit officially the goal of the UFRD is to provide government-guaranteed loans and equity investments to strategic sectors of the domestic economy. The UFRD provides debt financing to SOEs for modernization and technical upgrade projects in sectors that are strategically important for the Uzbek economy. It is also the main source for the capitalization of state-owned banks (SOBs). All UFRD loans require government approval. Increasing transparency regarding the scope and nature of the operations of the UFRD would greatly enhance the understanding of the UFRD's contribution to Uzbekistan's development results.

SOEs[24] in Uzbekistan dominate and have significant influence on the performance of many sectors in the economy, including natural resources, energy, manufacturing, telecommunications, transport, and agriculture. Comprehensive and reliable data on the share of SOEs in GDP, sectoral and regional value-added, employment, and exports are not available (Ajwad et al., 2014).

SOEs in Uzbekistan have traditionally been viewed as a key tool for achieving the country's industrial policy objectives. This largely translated into the current structure of industrial sectors in Uzbekistan, which are commonly characterized by a major sector-specific holding or joint-stock SOE with a mandate of managing the portfolio of SOEs operating in the sector,

[23] The Uzbekistan Reconstruction and Development Fund, established in 2006, is a key financial institution under the Cabinet of Ministers of the Republic of Uzbekistan designed to implement structural and investment policy. The supreme governing body of the Fund is the Council for the Management of the Fund, headed by the Prime Minister of the Republic of Uzbekistan.

[24] Uzbek legislation does not formally identify the term "state-owned enterprise," and thus no specific ownership thresholds designating an enterprise as "state-owned" exist. Most large SOEs in the country are incorporated as joint-stock companies, commonly majority to fully state-owned.

monitoring or supervising the performance of private enterprises, and implementing the state's sector development policies (ADBI, 2020).

Many non-financial SOEs provide goods and services to consumers or other SOEs at below cost recovery prices set by government without compensating budget subsidies. This practice undermines a level playing field for developing the private sector. 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. 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 (World Bank, 2019).

SOEs also execute many of the projects are funded from the budget under the public investment program. This includes investment in railroads, electrification of railways, purchases of aircraft, and others.

To finance these development objectives SOEs receive oversized government support representing more than a third of consolidated government spending and which are not included in the budget. 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, while SOE targeted tax expenditures represent about another 6 percent of GDP. These extensive fiscal support measures to SOEs favors capital-intensive industries that generate relatively little employment and foreign direct investment (WB, 2019).

SOBs also provide sizeable concessional lending to SOEs. They on-lend resources provided by the UFRD, the government (for housing), or international financial institutions. The UFRD lends to four of the SOBs through credit lines for concessional lending according to government priorities. The government lends at concessional rates to one of the SOBs for housing development and guarantees about half of SOBs' lending to SOEs, creating a contingent liability for the budget (WB, 2019). Lending on concessional terms, in foreign or domestic currency, represents 55 percent of the total bank loan portfolio; half of that is to SOEs and the rest is under different government programs, including housing, entrepreneurship, youth, large farmers, and others. Three-quarters of concessional lending is in foreign currency. These contingent liabilities from PPPs and SOEs, if not duly incorporated in government's balance sheets, may increase its exposure to fiscal risks.

BOX 4. POLICY OPTIONS TO REFORM SOEs IN UZBEKISTAN

- Establish a centralized database of state-owned enterprises, using a meaningful definition of SOEs and not just 100 percent central government ownership.
- Disclose all quasi-fiscal activities of SOEs and SOBs, recognize all support to SOEs/SOBs, record it explicitly on budget and on their financial statements.
- Replace the quasi-fiscal and off-budget support to SOEs/SOBs with explicit subsidies, raise prices to cost recovery levels, and introduce support to the vulnerable people.
- Restructure SOEs and SOBs, starting with hardening budget constraints without delay, reorganizing corporate governance, and introducing explicit performance criteria.
- Implement the international accounting and bankruptcy standards for all SOEs.
- Advance privatization.

Source: World Bank Public Expenditure Review (2019)

SOEs suffer from weak governance, including: (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 around corporate governance. The periodic accumulation of inter-enterprise arrears and regular restructuring of their obligations to the SOBs and the government indicates poor financial discipline. Box 4 lists the policy options to improve SOE governance.

The evolution of the contribution of SOEs to government revenue is ambiguous: on the one hand, they represent a large share of easily collected tax revenue, while on the other hand they benefit from 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 likely influence the revenue trends in the medium term.

Revenues from privatization of State-Owned Enterprises

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, however, was not followed by the large-scale privatization and reforming of the state-controlled companies. The mining and energy sectors, important contributors to export revenues and foreign exchange, have remained strongly in the state hands.

The GoU launched a new wave of privatization in 2019. Based on the experience of Singapore, United States, Luxembourg and Norway the principles of 'Yellow Pages Rule'[25] has been applied to determine which SOEs to privatize. A State Asset Management Agency (SAMA)[26] has been tasked to accelerate privatization and strengthen SOEs' corporate governance system prior to their privatization. Their website lists over 400 companies as undergoing restructuring. Annual privatization proceeds, reported in the budget as revenues of the Privatization Fund, are projected at UZS 223 billion (IMF, 2020) for 2020 and 2021and expected to increase gradually towards an annual UZS 273 billion by 2025.*27* Privatization revenues have been slowly growing but overall remain marginal compared to other government revenues. Annual privatization proceeds are projected at UZS 223 billion (IMF, 2020).

Beyond generating revenues privatization is also expected to support the development of Uzbekistan's shallow and illiquid capital markets. SOEs will be offered for privatization through the issue of shares (IPOs) offered on the Uzbek capital market. The development is entrusted to the Capital Market Development Agency[28]. Capital markets can be an important source of financing for the economy in the future by complementing bank financing for larger, riskier innovative projects. They may also enable other types of investors, including business angels and equity investors, by increasing effective exit options.

Privatization comes with the real risk of transferring rents to a small set of government-connected elites. Mitigating this risk requires improving the limited and incoherent information on state assets for privatization, more transparency on the GoU's privatization plans, along with stronger coordination among all involved actors.

[25] Where the private sector can work, there functioning of SOEs should be limited. SOEs can exist only where there is no other possibility of ensuring national security, defense of the state, protection of the interests of society, maintenance of strategic state-owned facilities.

[26] 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

[27] Equal to about USD 25 million.

[28] See more at https://www.cmda.gov.uz

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 was estimated at 31.2 percent of GDP in 2019 and projected at 28.6 for 2020 (IMF, 2020)

Large off-budget spending is a significant challenge to efficient and transparent public spending. The spending off-budget includes outlays by the remaining EBFs[29]; the off-budget accounts of budgetary organizations; government investment spending financed by foreign project loans; policy lending by the UFRD, the government, and foreign lenders; and estimates of the quasi-fiscal losses of SOEs. In 2020, for the first time the Budget Law included 18 state targeted funds, along with the resources of the UFRD (compared to only 3 state targeted funds in 2019).

With the public sector being a large employer in Uzbekistan, wages represent the largest share of on-budget spending, accounting for almost half of the government budget and close to 11 percent 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 generally weak civil administration, especially at the local level. Without accompanying capacity-building this limited administrative capacity constitutes a binding constraint to the effective implementation of potential SDG financing solutions.

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, 2019). Public investment amounted to 4.0 percent of GDP in 2019 (IMF, 2020), 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, such as China.

A lack of data allows only a limited analysis of the economic classification of government spending:

Spending on Agriculture

In 2018, the GoU spent 1.8 percent of GDP on agriculture, albeit with limited impact on farm incomes, sustainability, and competitiveness. Most funds were 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, 2019). With the adoption of the new strategy for agriculture[30] in 2020 the total amount to be allocated to agriculture is anticipated to increase from USD 845 million per annum to USD 1.393 million, over the next ten years (2020-2030), reverting the downward trend from last years. For comparison, such an increase would represent about 1.1 percent of total development finance flows to Uzbekistan in 2020.

Spending on education

Education is one of Uzbekistan's priorities for socio-economic development and political transition. Given the country's substantial share of prime working age population, as well as

[29] 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).

[30] The new Strategy benefits from EU budget support and technical assistance from a range of development partners.

children and youth, improving the efficiency of government education spending is part of the challenge of raising education outcomes to bolster human capital and create productive jobs (WB, 2019). In 2020, almost half of the expenditures for the social sphere or 22.8 percent of all budget expenditures will be directed to education. Government education spending amounted to 5.4 percent of GDP in 2017 and 5.9 percent in 2018, more than in countries with similar incomes, regional peers, and the OECD. The lack of private preschools, general secondary education schools and universities in Uzbekistan partly explain this very high public expenditure on education. The U.N. Education Index ranks Uzbekistan 78th-80th out of 188 countries with an index of 0.71. It is currently not possible to match education spending with learning outcomes due to a lack of consistent data on education achievements.

Education at all levels in Uzbekistan is undergoing substantial change, including the development of private education. As part of the Education Sector Plan 2019-23, financial projections for Preschool Education, General Secondary Education and Higher Education revealed a total financing gap of UZS 44,259 billion for the period 2019 – 2023 (equivalent to USD 5.5 billion, or an annual USD 1.1 billion). This financing gap is equivalent to 2.4 percent of total development finance to Uzbekistan in 2020.

Spending on health

Government spending on health in Uzbekistan is comparable to other 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.

Non-communicable diseases (NCDs) are on the rise and pose serious health and development challenges to the economy. Their economic cost is equivalent to 4.7 percent of the GDP as per WHO studies. Government expenditure on health care for NCDs represents only 17.2 percent of all NCD-related costs. They account for 79% of all deaths in the country. A disproportionate share of resources is used for tackling these lifestyle diseases, while primary health care remains underfunded.

Current allocation of health spending is inequitable. The health delivery model focuses on specialty hospitals over primary health centers, equipment over skills, and curative over preventive health care (Ahmedov et al., 2014). This is neither efficient nor equitable and may increase the cost, including high out of pocket expenses, of healthcare resulting in greater exclusion (SDG 3.8).

While the system is already underfunded, the recently adopted ambitious health system reform and draft health financing strategy calls for a strong financing architecture to succeed. The related draft Concept for the piloting of State Health Insurance to support service delivery reform in Syrdarya will help to set the foundations for this architecture.

Increasing health spending, especially considering the COVID-19 related pressures, will be critical to achieve health related SDGs and boost human capital. Until the Health Financing Strategy and Concept of the Syrdarya pilot, there has been limited strategic planning and management of the health sector. Estimates of financing needs for the sector are incomplete or outdated, especially now in the context of the ambitious reform agenda.

The UN Joint Programme of the Joint SDG Fund will support the Ministry to institutionalize strategic planning, including priority-setting in the establishment of a State Guaranteed Benefit Package, and strengthen the link between plans and budgets. This benefit package will be costed. Opportunities and frameworks for private-public partnership will be explored. These efforts will lead to more efficient allocation and use of financial resources, and address chronic underinvestment in the health sector.

Climate spending

Spending on environmental protection and climate change is increasing but remains very low at 0.05 percent of GDP (Asian Development Bank, 2020). Uzbekistan uses earmarked environmental funds to support environmental activities. All the Fund resources are spent exclusively on current expenditure, however. The fragmentation of the environmental sector contributes significantly to the challenge of adequately financing priority environmental programmes (OECD, 2011). Internationally recognized issues, such as climate change, 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 would support the climate related institutions to compete for budget resources. Demand for improved expenditure management practices can generated, and is a responsibility of not only of decision makers, but also citizens' and grass-root organizations. Donors have a crucial role to play in supporting such initiatives.

The scale of budgetary expenditure on climate finance is unclear. To allow a more strategic use of domestic public resources for 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 Climate Public Expenditures and Institutional Review[31] (CPEIR), could inform a more holistic and effective government approach towards mitigating and adapting to climate change. Following the CPEIR authorities could further explore the value of establishing a climate budget tagging system to monitor and manage climate related expenditure year-on-year.

Social protection and support

Social protection in Uzbekistan is fragmented and underfunded. Nearly half the population and one-third of the poor are not covered by any social protection scheme. Social protection expenditure represents only 6 percent of GDP, which is low compared to its regional peers. Social protection is financed by a combination of social insurance contributions and general government revenues. The latter compensates for the high degree of informality.

Uzbekistan's social protection system reduces poverty headcount by 39 percent after social transfers (UNICEF, 2019). The pension scheme constitutes the largest contribution to these social transfers. [32] . Arguably social protection schemes may have a wider range of impact, including on human development and labor force engagement, but there is no available research to provide evidence for such claims.

Social assistance programmes are weakly linked to emergency response measures and do not have mechanisms for rapid scale-up and delivery of cash transfers to the affected population in case of emergencies like COVID-19 pandemic. This leads to delayed, ad hoc and ineffective social protection measures. New population groups are becoming vulnerable in the face of this unprecedented disruption, and there is a need for better understanding of the actual urgent needs of these groups to be able to address them timely and effectively.

The COVID-19 pandemic and lock-down measures have increased the demand for social assistance for individuals and households, and the need to extend coverage to workers in informal employment. Shrinking demand in the labor market, and growing unemployment among

[31] CPEIR is a systematic qualitative and quantitative analysis of a country's public expenditures and how they relate to climate change. https://www.climatefinance-developmenteffectiveness.org/about/what-cpeir#:~:text=The%20CPEIR%20is%20an%20innovative,make%20recommendations%20to%20strengthen%20them.

[32] Responsible for 77 percent of the overall reduction in the national poverty rate.

disadvantaged groups and migrant workers, as well as limited job retention programs, place additional strain on the system.

This growing demand is compounded by significant pre-crisis social protection coverage gaps. Given that most families have similar incomes, it is extremely difficult to undertake accurate targeting of those living in extreme poverty (UNICEF, 2019). The main child benefit schemes – The Childcare and Family Allowances – have small and dwindling effects within the context of the changing demographic profile of the country. 52 per cent of the poorest households are excluded from any support by the national social protection system.

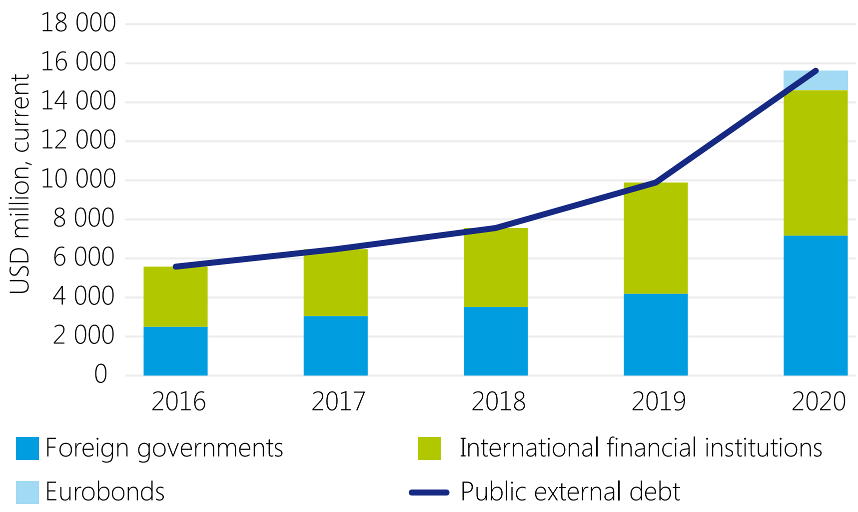
Therefore, the UN Joint Programme will support the GoU in the operationalization of its new Social Protection Strategy[33]. It focuses on expanding the Single Registry[34] of social protection to the health sector. This becomes an effective tool for administering social protection mechanisms for the poor and vulnerable. It will also undertake a public expenditure review, and build an investment case, for social assistance programmes, and assess pooled funding mechanisms, such as a Social Health Insurance Fund, to increase and diversify available financing for social protection. These support measures will inform the draft decree of the head of state on introducing a minimum consumer basket and a living wage in all regions from 2021.

Public Debt

According to the 2020 Citizen budget, total public debt as of January 1, 2020 was 17.6 billion USD (30.5% to GDP) out of which external debt is 15.6 billion USD (26.9% to GDP). As of January 1, 2020, the public internal debt attracted on behalf of the Government of the Republic of Uzbekistan by issuing state treasury bonds was 1,250.0 billion UZS (GoU, 2020).

The composition of external public debt is balanced between bilateral creditors and international financial institutions (Figure 10). China is the largest bilateral creditor to Uzbekistan, representing a total of USD 3.35 billion of outstanding loans in 2020. Financing for China's investment in Uzbekistan remains either directly invested or indirectly coordinated by one of China's three central policy banks: Export-Import Bank of China, China Development Bank, and the Agricultural Development Bank of China. Japan is the second largest creditor with USD 1.94 billion, followed by South Korea (USD 748.7 million) and France (USD 357.7 million).

Figure 10 External debt composition, by creditors



Source: GoU's Citizen Budget, 2020.

[33] Under formulation.

[34] Single Registry is a comprehensive digitized management information system for applying, assigning and paying social allowances.

The economic liberalization reforms have been accompanied by the increased use of foreign debt to finance fiscal deficits. This mostly served financing state programs, including projects in healthcare and education, drinking water supply and uninterrupted electric power supply, construction of housing, development of infrastructure and base sectors of economy.

Considering this increase, the World Bank and the IMF have supported the GoU with developing a Medium-Term Debt Strategy to further improve public debt management, keep sustainable debt levels, and ensure effective use of borrowed funds. Authorities adopted an external public debt contractual amount limit (at USD 4 billion in 2020) and an external public debt disbursement limit, which will be repaid by the state budget (at USD 1.5 billion) in the fiscal year 2020. Both these limits are revised annually and published in the State Budget Law. They also issued debt regulations to prioritize projects that have high economic returns or align strongly with reform priorities. The debt ceilings will be revised to accommodate the unanticipated increase in COVID-19 related spending.

In the context of restrictive measures and overcoming negative impacts of COVID-19 pandemic, authorities envisage to borrow up to an additional USD 1 billion through concessional lending of IFIs and other sources, along with issuing state treasury bonds to finance budget deficits in the amount of 1.4 trillion UZS (GoU, 2020).

Despite this projected increase in public borrowing, both the ADB's and the IMF's latest debt sustainability analyses (DSA) suggest that overall debt will remain sustainable and there is a low risk of debt distress. Uzbekistan's external stability risks are low due mainly to its strong foreign exchange reserves and a moderate level of external debt most of which comprised of concessional rates with maturities exceeding ten years (ADB, 2020). Furthermore, the ADB's DSA further suggests that even with the significant lending support from the IFIs debt sustainability will not be jeopardized.

Uzbekistan can increasingly tap into international financial markets to finance its development. In early 2019, the Government has issued EUR1 billion EURO bond[35] (Table 3). The dual-tranche trade raised USD 500 million worth of five year bonds priced at 4.7 percent, and USD 500 million worth of 10 year bonds, priced at 5.4 percent. The Eurobonds helped place Uzbekistan on the map and 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[36]. Uzbekistan is eyeing to issue green bonds packaged as a Sukuk bonds. The CMDA is currently developing the legal framework for the project in collaboration with the Islamic Development Bank and UNDP in the context of the Joint Programme.

Table 3 Outstanding Bond issuances in Uzbekistan

Currency	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.

[35] EURO bond issue has increased the public external debt by 1.75 percent of GDP.

[36] Alkis Vryenios Drakinos, head of the resident office in Uzbekistan at the EBRD.

According to investors, further 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[37].

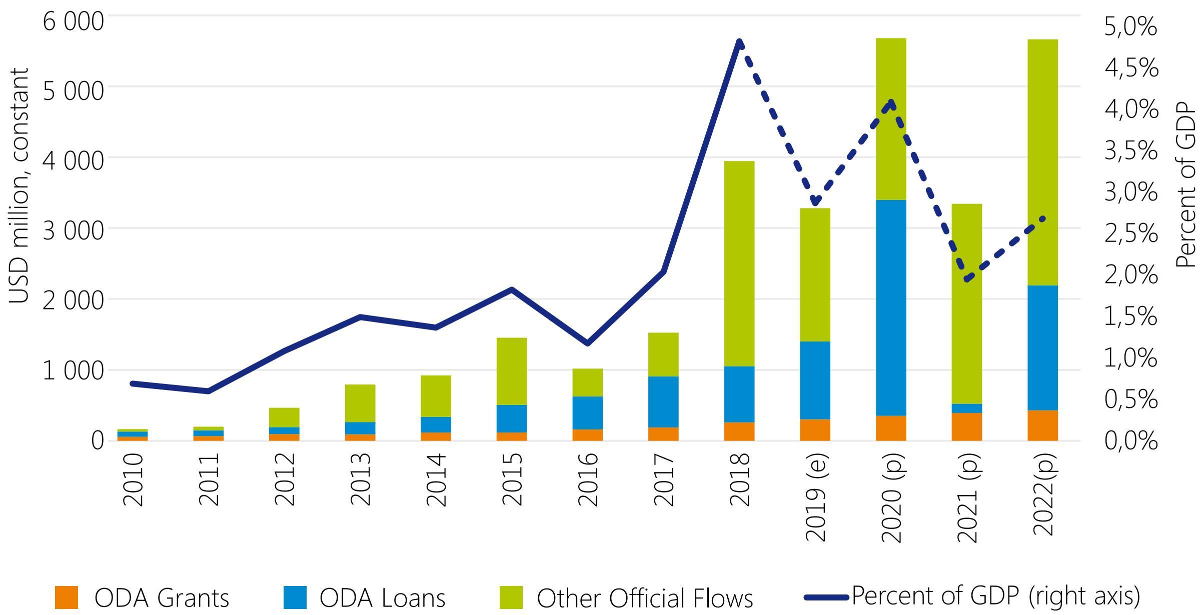
The recent issue of a public bond is expected to also have a spill-over effect on the improvement in reporting practices and better focus on the transparency and communication with the (major) investors. Issuing bonds offered "*diversification of funding. It is an opportunity to establish a relationship 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.*"[38] 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 INTERNATIONAL FINANCIAL FLOWS

Uzbekistan is eligible for concessional financing, both grants and loans. The international community's renewed interest to support Uzbekistan provides a timely opportunity to benefit fully from policy advice and technical assistance, particularly in public finance management, to ensure a sustainable transition towards a private sector-led growth model and avoid the middle-income financing trap.

Since 2018, public international finance became a relatively more important source of development finance to Uzbekistan. This trend was driven by a significant increase of other

Figure 11 Overview of International Public Finance



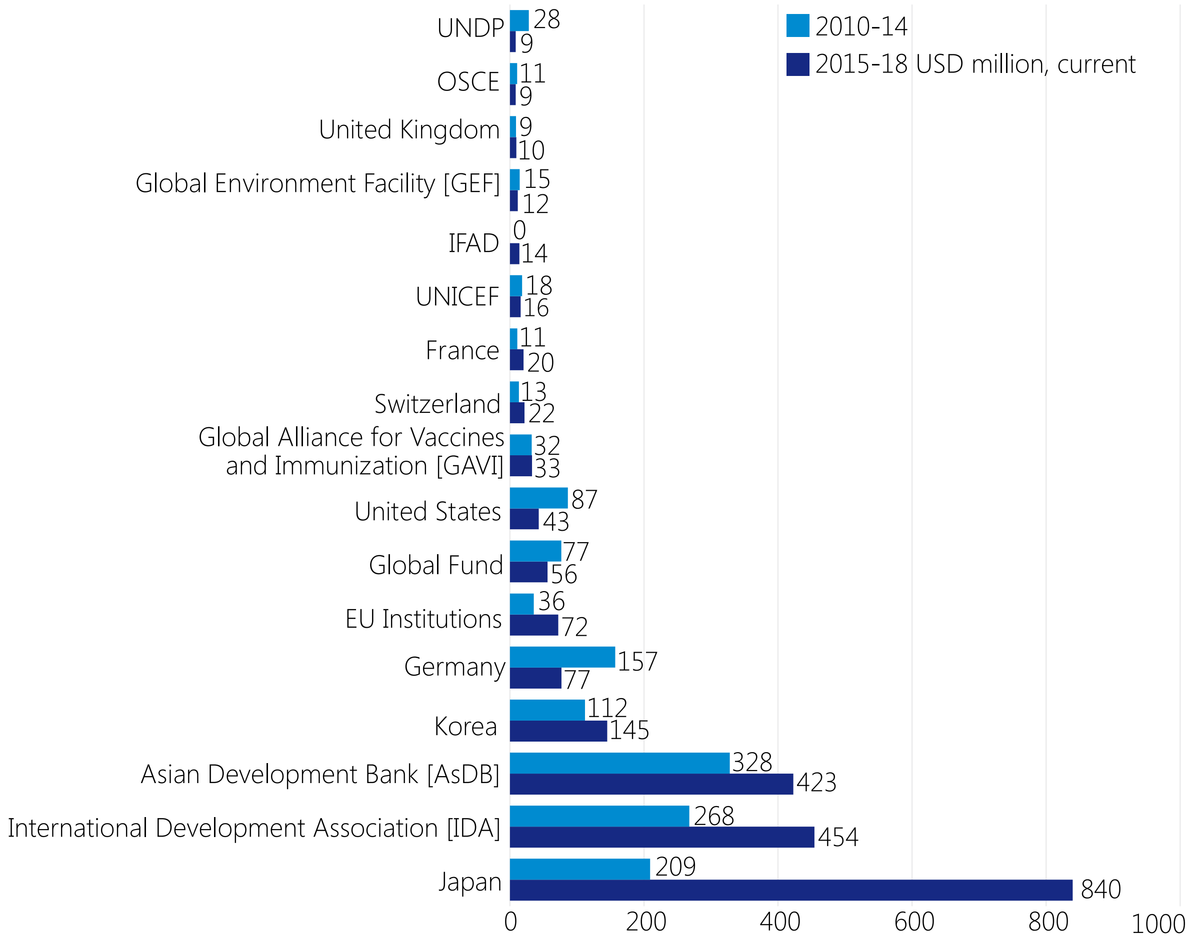
Source: OECD, 2020.

Note: Estimates and projections based on author's calculations and IMF data (See Annex 2 for methodological details).

37 Moody's Investors Service.

38 Odilbek Isakov, head of the country's debt management office

Figure 12 DAC donors in Uzbekistan



Source: OECD, 2020.

Note: 'EU institutions' include financing provided by the European Commission, the European Investment Bank (EIB) and the European External Action Service.

official flows in 2018 and 2019, combined with significant concessional lending to finance the COVID-19 response and recovery in 2020 (Figure 11). Total ODA[39] per capita for the period 2015-20 averaged USD 23. Considering institutional performance, population size and needs, especially in comparison to other lower-middle income countries, it can be argued that Uzbekistan is under-aided (UNDP, 2016).

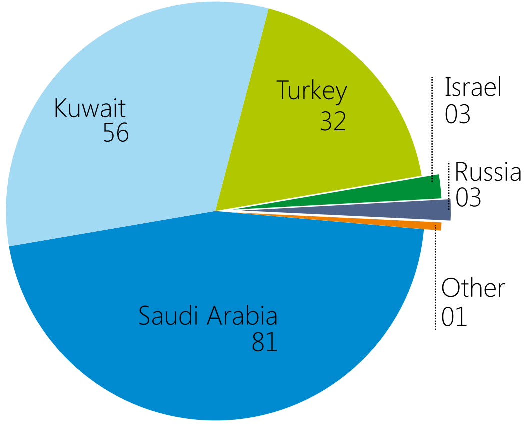
The World Bank, Asian Development Bank and Japan are the largest DAC donors in Uzbekistan (Figure 12). Since reengaging in 2008, the World Bank Group (WBG) has focused on improving infrastructure efficiency, access to social services and the GoU's competitiveness and economic diversification agenda. The World Bank is supporting the Government's response to the COVID crisis through emergency project (USD 95 million) and budget financing (up to USD 700 million) to increase health and social spending, and through the reprioritization within existing approved projects to support the economic recovery once the virus has been contained. The ADB's assistance focus increasingly on policy support and capacity development as well as direct investments in the private sector and public–private partnership opportunities to modernize infrastructure.

EU institutions are increasing their presence as a donor in Uzbekistan. It allocated EUR 168 million to support sustainable development between 2014-2020. EU cooperation with

[39] Grants and loans.

Uzbekistan focuses mainly on rural development and the agriculture sector, including horticulture, irrigation, water management, livestock and professional education. They also work closely with the Uzbek government to improve sector governance and public administration reform. Through the EU's Investment Facility for Central Asia (IFCA)[40] the European Investment Bank (EIB) and bilateral partners funds key infrastructures which cannot yet be adequately funded on financial markets because they are considered as too risky.

Figure 13 Total ODA from non-DAC donors to Uzbekistan (USD millions)



Source: OECD, 2020.

In Uzbekistan, IFCA co-funds EIB's and Agence Française de Développement's (AFD) sovereign loans in water management, energy / hydro-energy, solid waste management and environmental infrastructure projects, including technical assistance and capacity building for the national authorities. Between 2014 and 2019, EUR 33.5 million of the EU IFCA grants leveraged EUR 780.43 million of loans from the EIB and the AFD[41]. Through IFCA the EU seeks to contribute to the SDGs related to clean water and sanitation, affordable clean energy, decent work and economic growth as well as climate action. To date, the EBRD has invested a cumulative EUR 906 million in Uzbekistan. Its current portfolio amounts to EUR 88 million, spread over 11 active projects. Strategic priorities for the EBRD's engagement in Uzbekistan are i) enhancing competitiveness by strengthening the private sector's role in the economy; ii) promoting green energy; and, iii) support regional and international co-operation and integration.

Uzbekistan also participates in several regional EU-sponsored projects and initiatives: BOMCA on border control, CADAP on drug prevention, WECOOP on water, environment and climate change, CAWEP on water and energy security with the WBG, Rule of Law, Central Asia Invest and Ready4Trade.

Not including China[42], non-DAC donors remain marginal in Uzbekistan, albeit increasing. The three largest non-DAC donors are Saudi Arabia, Kuwait and Turkey (Figure 13). Their total ODA remains marginal, but marks an increasing trend. ODA from Russia, being the country's main trading partner, is surprisingly limited. As an Islamic country, Uzbekistan has a great potential to further explore Islamic finance and effectively engage with development agencies in the Islamic countries, especially in the Arabian Gulf (Saudi Arabia, UAE, Kuwait and Qatar).

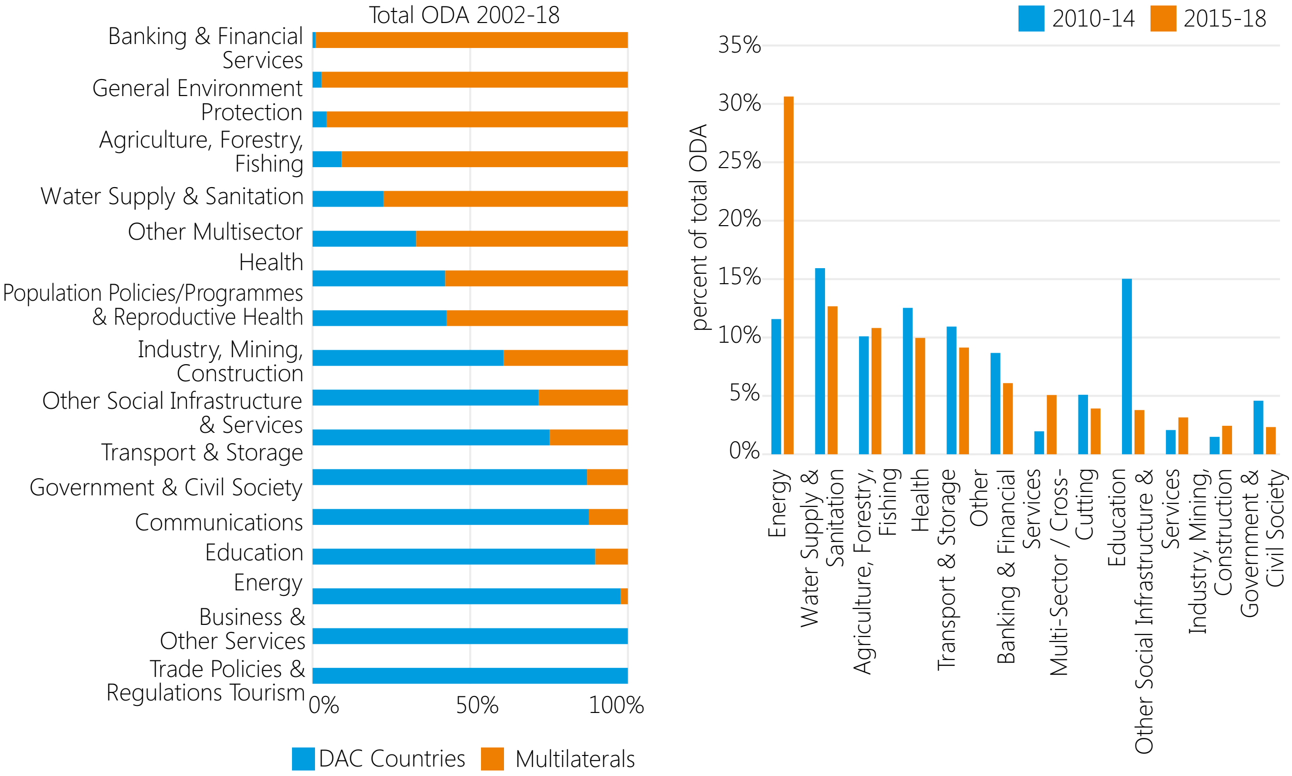
The sectoral allocation of ODA is balanced (Figure 14). The energy sector has attracted 18 percent of total ODA. The relative priorities of donors seem to have shifted lightly over the period 2010-18. ODA to the energy sector as well as to the banking and financial services has noted a marked increase, whereas ODA to education and government and civil society has declined significantly in proportion.

[40] The IFCA is a EU blending investment instrument for Central Asia to co-fund vital socio-economic infrastructure investment projects that benefit societies at large.

[41] In 2019 alone, 4 IFCA grants of a total of EUR 25.25 million leveraged EUR 752.93 million of loans from EIB and AFD.

[42] China does not report to the OECD DAC. There are no available estimates regarding China's concessional finance to Uzbekistan.

Figure 14 Sectoral allocation of ODA

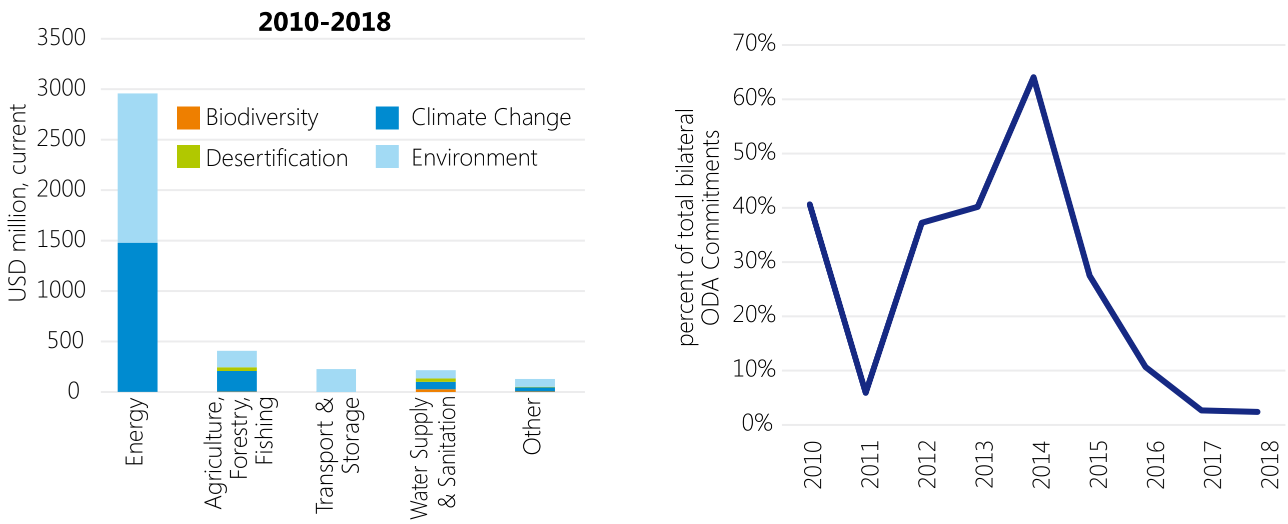


Source: OECD, 2020.

Note: Total ODA includes both grants and loans

According to the RIO markers[43], the share of climate finance within total bilateral ODA commitments is relatively small and on a downward trend in Uzbekistan (Figure 15). Except for 2014, where it peaked at 64 percent, the average share of climate finance commitments hovered around 20 percent 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[44].

Figure 15 Total bilateral ODA commitments with environmental objectives



Source: OECD, 2020.

[43] Since 1998, the DAC has monitored development finance flows targeting the objectives of the Rio Conventions on biodiversity, climate change and desertification through the CRS using the so-called "Rio markers".

[44] The Turakurgan thermal power station construction project.

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 climate finance in Uzbekistan. However, since 2016, only one project[45], worth USD 19 million (mobilizing USD 68.8 million from the IBRD) has been implemented. There already exists a tutorial for preparing a project proposal for the Green Climate Fund, tailored to Uzbekistan's context, which can be promoted by the country's national designated authority, the Ministry of Investments and Foreign Trade.

International development partners are actively promoting both climate-related projects in Uzbekistan. The European Union supports several climate-relevant projects in Uzbekistan. For example, a sustainable development project in rural areas shares the experiences of food production and sustainability from EU rural and farming areas, and enhance living standards in six provinces. EBRD is supporting solid waste management and water reforms in Tashkent. The Ipak Yuli Bank has joined the EBRD's pilot Green Economy Financing Facility (GEFF)[46]. 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. 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).

Considering the increasing share of global ODA channeled towards environmental and climate-related objectives[47] in contrast to the apparent small share of climate-related ODA to Uzbekistan, there seem to be strong potential for ODA to more effectively support Uzbekistan financing its environmental priorities. This may require a better mapping of ongoing climate-related support, how it aligns with government priorities and its development impact. This could be part of efforts for increasing aid effectiveness in the country.

Aid Effectiveness

An aid effectiveness perception survey carried out in November 2016 showed considerable differences in the perceptions of Government and donors[48], especially regarding the degree of results-orientation and alignment of foreign aid, as well as the perceived quality of government-donor dialogue and the efficiency of the national aid coordination arrangements (UNDP, 2016). The effectiveness of foreign aid depends on the quality of institutions in the recipient country, and the way it is provided. Global monitoring mechanisms have been developed to assess aid effectiveness and to promote dialogue at country level on how to make aid more effective. For example, Uzbekistan is not a party to the Global Partnership for Effective Development Cooperation (GPEDC) and has not participated in any of the global aid effectiveness surveys.

[45] Scaling up the Climate Adaptation and Mitigation Program for Aral Sea Basin (CAMP4ASB) by providing support to adaptation activities in Tajikistan and Uzbekistan.

[46] 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 CO_2 emissions per year.

[47] 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 specifically on climate change.

[48] In general, Government agencies assess the existing aid effectiveness situation as being more positive than development partners do.

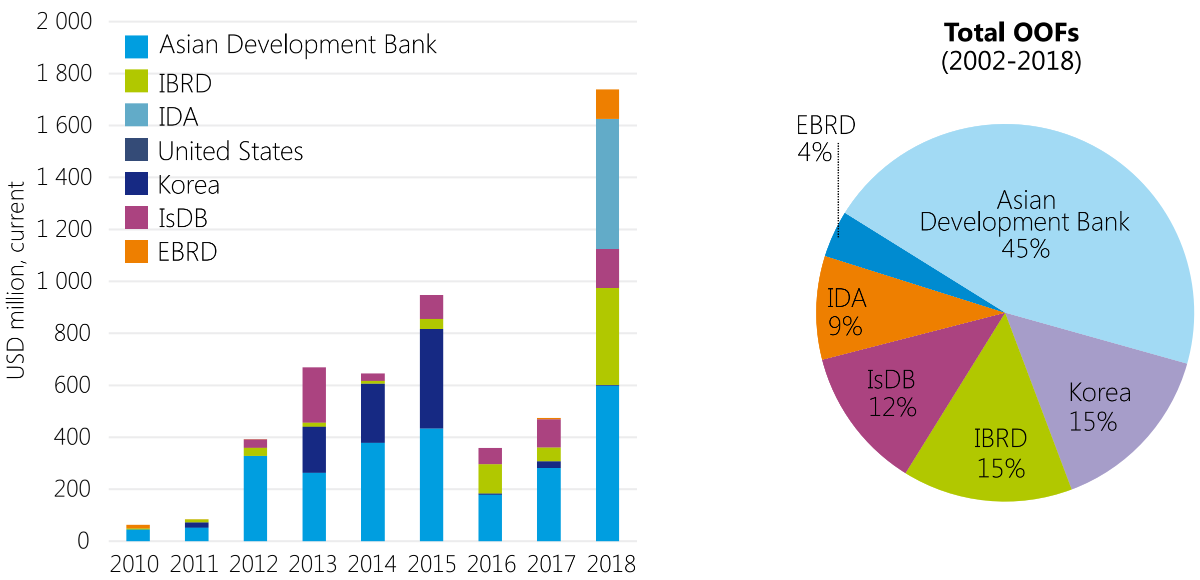
Aid effectiveness would benefit from using more budget support modalities and strengthen effective donor coordination. However, Uzbekistan's current public procurement and financial reporting practices don't meet international standards. Therefore, most of development partner support is project aid[49], leading to increased transaction costs requiring more administration and coordination.

Capacities for coordination among international development agencies working in Uzbekistan are limited and fragmented. Signs of this include duplication in donor projects, ineffective platforms for multi-stakeholder dialogue, weak and incomplete online aid information management system (AIMS) for donors. Weak capacity to communicate thematic results and organize development discourse, and a lack of an interagency strategy to improve aid effectiveness to achieve Uzbekistan's development priorities, are further inhibiting coherent development results. The EU is committed to improve aid effectiveness and communication on thematic results through Joint Programming. The EU institutions aim to jointly plan their 2021-2027 development cooperation programme, including division of labor and common objectives. This formulation process will include the Uzbek Ministry of Investment and Foreign Trade, who took over the ownership of the donor coordination in 2019.

Other Official Flows

Since 2012 'other official flows' (beyond ODA) – provided at close to market terms and/or with a commercial motive- have overtaken ODA in Uzbekistan. The development finance institutions are the main providers of these OOFs[50] in Uzbekistan (Figure 16). OOFs, although commercially motivated, can also help finance large projects in Uzbekistan. These flows deserve greater consideration to maximize their development impact in Uzbekistan by e.g. supporting economic collaboration and facilitating trade with its major trading partners.

Figure 16 Other Official flows by source

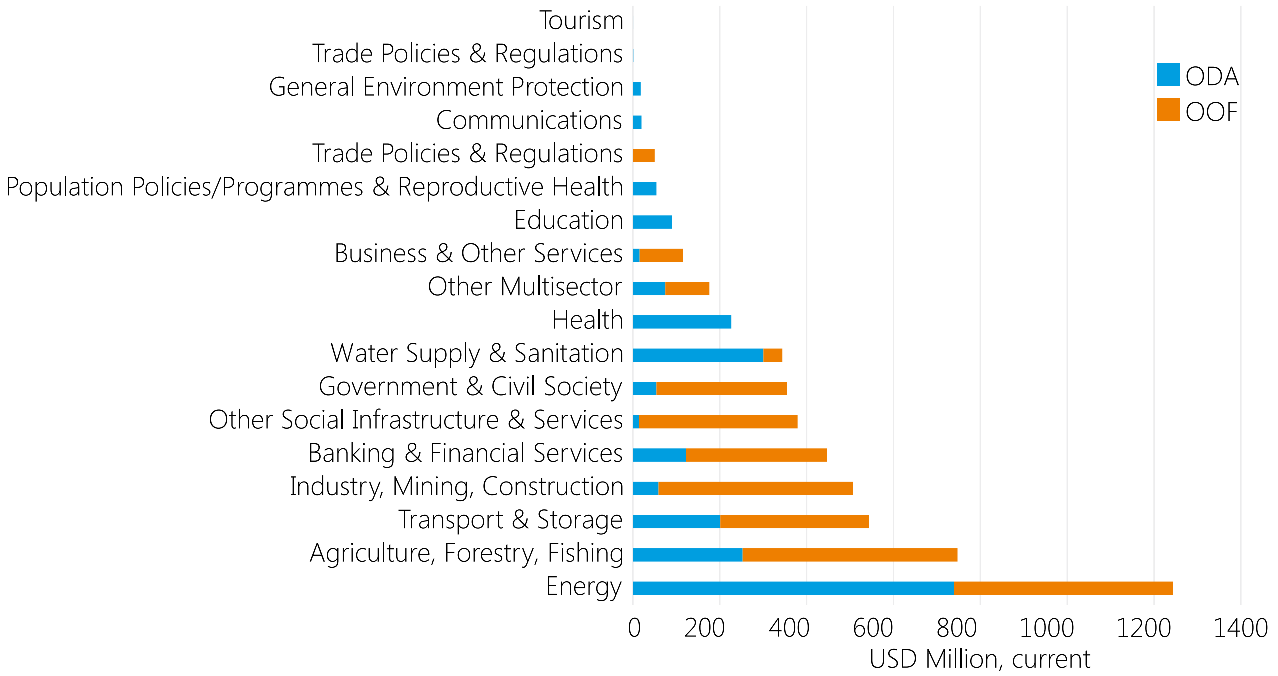


Source: OECD, 2020.

[49] The EU's EUR 33 million budget support for implementing the Concept of Agricultural Development would be a first.

[50] Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria. They may include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose.

Figure 17 Sectoral Allocation: ODA versus OOF (2002-18)



Source: OECD, 2020.

OOFs can help fill the gap between public aid and private investment by crowding in private capital: it can enable firms access to long-term loans as well as equity capital in situations where high risks discourages private financing. For the period 2002-18 OOFs to Uzbekistan were predominantly focused on economic infrastructure development (Figure 17).

The structure of OOF in Uzbekistan[51] suggests that it is linked with the specific intervention of 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 overseas development resources.

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) assessed the water supply and sewage for the city of Chust (in the Fergana Valley)[52]. Similarly, in 2019, the Chinese initiated SSC in agriculture[53]. These initiatives are part of the Government's Strategy for South-South Cooperation in Agriculture (2018)[54]. 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 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.

[51] See: OECD CRS Microdata for OOF annual data.

[52] See: https://www.unsouthsouth.org/2019/12/05/urgent-actions-to-manage-water-supply-and-waste-required-in-chust-uzbekistan

[53] https://www.unsouthsouth.org/2019/07/10/south-south-cooperation-for-agriculture-development-gains-momentum

[54] See: Стратегия сотрудничества Юг-Юг в области сельского хозяйства

Uzbekistan is a member of Economic Cooperation Organisation[55] (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.[56] The programme 'Locust Management in the Caucasus and Central Asia (CCA)', supported by several development partners[57], facilitates the knowledge sharing amongst the participating countries.[58] Uzbekistan has also been active in IT sector collaboration with ECO counties. The Iranian Nanotechnology Initiative Council[59] 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.

Developing a more systematic approach to SSC would require 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. Such monitoring of SSC could inform the development of a development cooperation strategy as part of an INFF.

PRIVATE FINANCIAL FLOWS

Commercial actors - small and large - are a key part of all advanced economies. Governments can only indirectly influence the scope and magnitude of private finance[60] in their 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. Assessing the scale and nature of available private financing is critical for considering the role that different private actors can play and how to bring together existing policies and instruments the GoU uses to influence or engage private finance. Subsequently, additional partnerships, policies and interventions may be required towards effectively harnessing the private sector's contribution to sustainable development. An INFF could be a way of helping the GoU to bring these policy areas and objectives together.

Domestic private investment

Domestic private 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 percent between 2013 and 2018 (Figure 18). Following decades of underinvestment, credit growth boomed in 2018, financing a surge in private sector investment, peaking at 21.3 percent of GDP. Most of this credit went to

[55] Member countries are: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

[56] The participating countries are: Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

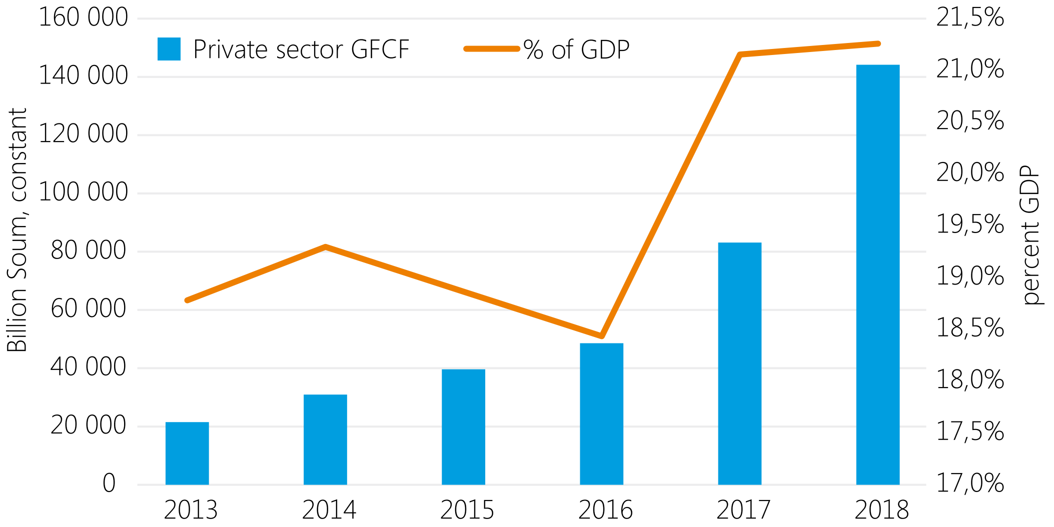
[57] United States Agency for International Development (USAID), Japan International Cooperation Agency (JICA), FAO-Turkey Partnership Programme (FTTP) and FAO.

[58] The target countries are: Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan.

[59] Iran hosts the UNIDO International Centre on Nanotechnology, established in 2012.

[60] Private finance here refers to: domestic commercial investment, foreign direct investment, portfolio investment, borrowing by the private sector and remittances.

Figure 18 Gross Fixed Capital Formation by the Private Sector

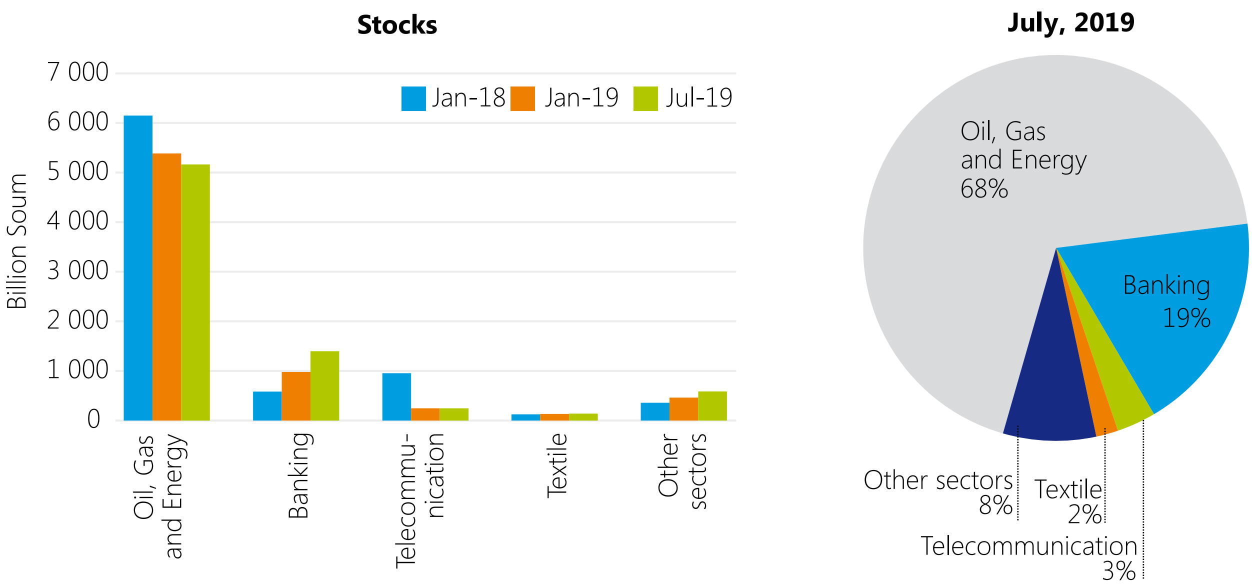


Source: World Bank, WDI 2020.

corporations[61]. Credit at preferential terms[62], granted through SOBs, accounted for more than half of the credit growth in 2018.

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. The share of SMEs in GDP rose to 57 per cent in 2016 from 31 per cent in 2000, according to Statistics Committee data. The SME share in employment increased to 78 per cent in 2017 from 50 per cent in

Figure 19 Private External Debt by Sector



Source: Central Bank, MoF

[61] It is hard to interpret the extent in which this private investment includes SOEs and enterprises where government is a shareholder.

[62] 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).

2000, and in investments it increased to 32 per cent from 13 per cent. The majority (over 60 percent) of these jobs in rural areas. Thus, SMEs are important to achieving regional development.

Private external debt grew to 14 percent in 2018, up from 8.0 percent in 2010. The energy sector holds the largest share of private debt, followed by the banking sector (Figure 19). Following the maturity of loans extended to the oil, gas and energy-related industry, their total value of external private debt stocks declined in 2018.

The growth in access to external debt by 'other sectors' may indicate the possible diversification of economic activity in the country. Agriculture does not appear, revealing a need to consider how to facilitate the agricultural sector's access to commercial debt.

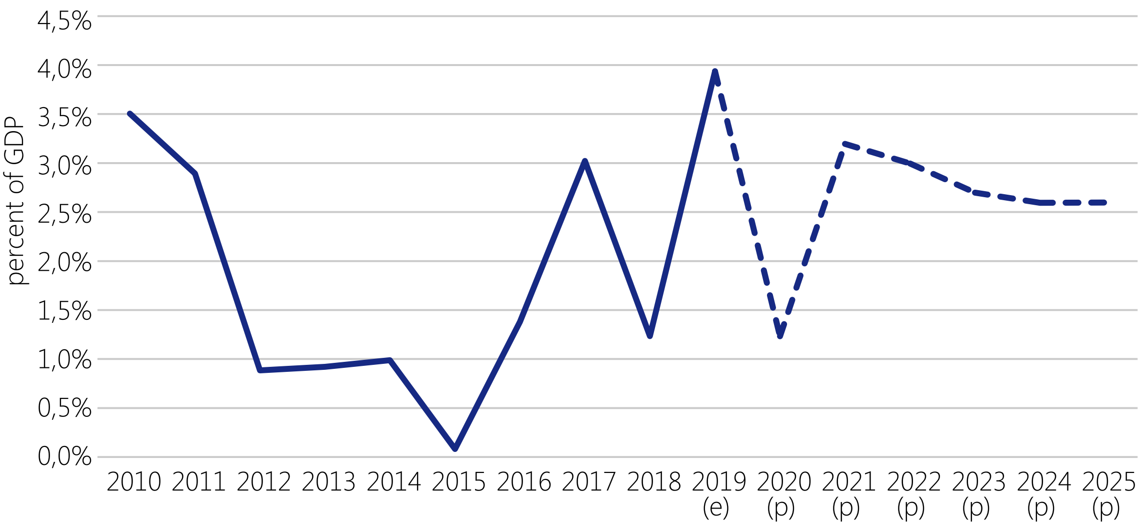
The banking sector's loan portfolio as a proxy for the domestic investment activities has grown significantly between 2018 and 2019 – 52.5 percent; from UZS 153,222 billion to UZS 223,729 billion, respectively. Although the banking sector has the capacity to support domestic investment, it also claimed to be bureaucratic and risk-averse, often pushing entrepreneurs and small businesses to look for alternative private sources of finance on the informal lending market[63].

The high interest rates charged for non-preferential commercial lending are a critical impediment to private sector access to credit. The large spread between the CBU's refinancing rate and prime lending rates signal the possibility for lowering the prime lending rates. However, the big share of preferential lending (at 50-60% of total lending) going mostly to SOEs and state programmes, maintains the interest rates on non-preferential commercial lending high.

Foreign Direct Investment

FDI inflows during the past five years have been volatile (Figure 20). For 2019 they reached a record 3.9 percent of GDP, equal to USD 2.3 billion. According to the 2020 Citizen Budget, the GoU planned to attract USD 4.0 billion worth of FDI, to be directed to the implementation of large projects in industry, agriculture and infrastructure development. Already prior to the COVID-19 pandemic this was an ambitious FDI target considering the slow pick-up of FDI in

Figure 20 FDI inflows, Uzbekistan



Source: World Bank IDS and IMF from 2017 onwards.

[63] Anecdotal reference suggests that although FOREX reform has eliminated the black FOREX market, it did not eliminate fully the informal lending market.

previous years. Reflecting the COVID-19 impact on FDI, the IMF (2020) projects FDI inflows over the medium-term to remain below USD 3.0 billion. GOU experts suggest that the size and the scale of Uzbekistan's economy requires about USD 12 billion of FDI every year (US Depart. of State, 2019)

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[64]. Traditionally the energy sector has been the best performer in attracting FDIs, resulting in an inter-regional imbalance of investments[65]. With the opening of the country, some other branches of economies may become attractive, such as agriculture, tourism. The Russian Federation (55 percent of total FDI), the Republic of Korea, China and Germany, and recently Canada, are the major FDI investors. The Republic of Korea shows interest in the development of financial/capital market in Uzbekistan, and it is plausible to assume that they would be interested not only in FDIs, but also foreign portfolio investments.

Portfolio investments

Data for (foreign) portfolio investment in Uzbekistan has been reported since 2016. They have only started to become significant in 2019, with the issuance of the Eurobond, reaching USD 1.346 billion. (Compared to just over USD 2 million in 2016, USD 3.149 million in 2017 and USD 13 million in 2018) Uzbekistan's planned large privatization programme and sovereign bond issuances are expected to increase portfolio inflows in the coming years as foreign investors acquire equity securities, including shares, stocks and direct purchases of shares in local stock markets. Continued financial market development will be vital to help the country absorb potentially large capital flow fluctuations and the economic shocks that come with them. Strong regulatory frameworks are essential to this effort. Building foreign reserves and, where feasible, allowing exchange rates to adjust and absorb shocks can help insulate economies from the impact of capital flow volatility.

Remittances

Remittances are crucial for GoU's foreign exchange reserves as well as for poverty alleviation as they mostly accrue to low-income households. For 2019, the IMF estimated remittance inflows to have been a record USD 8.7 billion, up from USD 7.8 billion the previous year. Remittances were equivalent to an estimated 15 percent of GDP. The economic crisis induced by the COVID-19 pandemic and economic lockdown are projected to severely disrupt remittance flows around the globe, including in Uzbekistan. For 2020 remittances are projected to decrease by USD 2.9 billion to USD 5.8 billion. This is equivalent to a real decrease of 23 percent (Figure 21). In contrast to previous economic crises, where remittances tended to be countercyclical, the particularities of this crisis will see the rapidly falling remittances compounding the effect of domestic disruptions on the incomes of the poor and vulnerable.

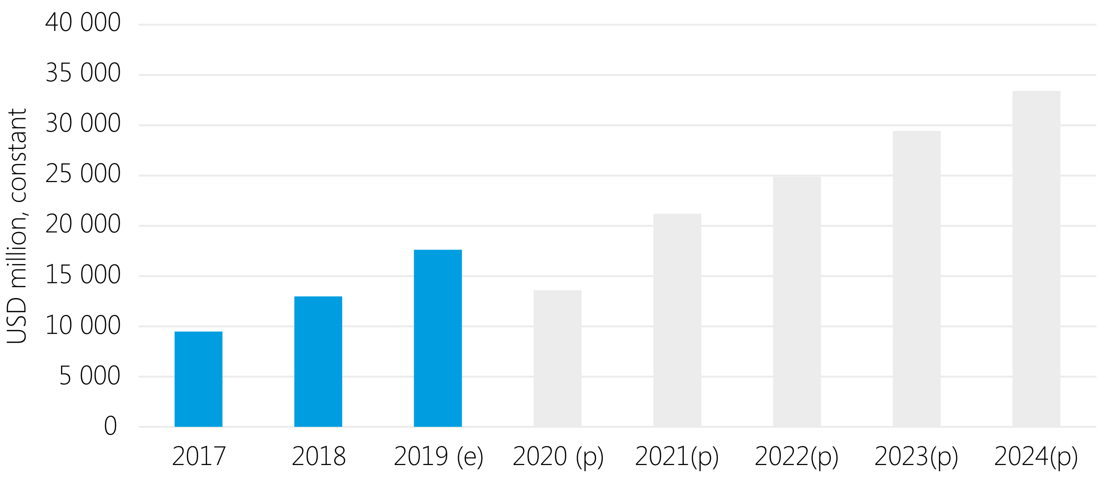
Historically, over 80 percent of remittances are emitted by the Uzbek diaspora in Russia[66]. Consequently, remittance inflows depend heavily on the performance of Russia's economy. During the previous Russian economic downturn (2014-2016) the transfers fell by 60 percent for Uzbekistan alone (see: World Bank, 2018b). The current shocks on the energy markets are affecting the Russian economy and leading to lower demand for labor from neighboring countries. This trend will have a negative effect on future remittances to Uzbekistan as the

[64] An Uzbek-German investment summit, held in Berlin in January 2019, saw €4bn ($4.5bn) worth of deals inked on day one.

[65] For a period of January-December 2018, 4 regions (Tashkent, Navoi, Bukhara, and Kashkadarya regions) accounted for about 51% percent of the total investment and 64% percent of the foreign investment inflow (GoU, 2020).

[66] It is estimated that between 2 and 3 million Uzbeks live abroad. This is 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).

Figure 21 Remittances inflows



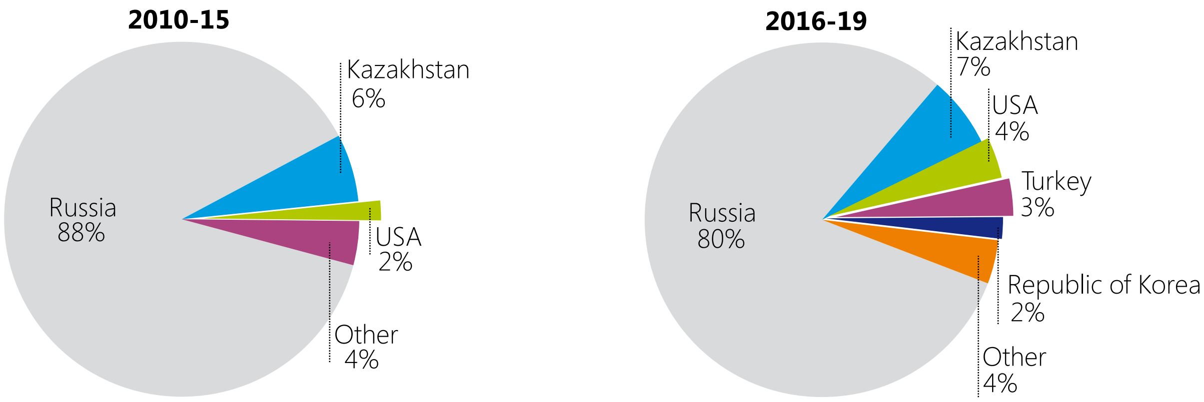
Source: IMF 2020.

speed and extent of Russia's economic recovery will have a significant bearing on remittances to Uzbekistan in the next few years.

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).

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 22). The abolition of exit visas in 2019 will most likely lead to even further diversification of migrant destinations.

Figure 22 Sources of remittances



Source: GoU

Civil society Organizations

The volume of INGOs' operations in the country is still rather small, but growing[67]. 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 for various NGO projects (BTI, 2018).

[67] In the 2000s many international NGOs (INGOs) had been banned from the country. With the recent opening of the country they have been allowed to resume operations or begin new ones..

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 medium-term budget process with long-term plans as well as alignment across different finance policies such as those governing the budget, private sector development, green development, etc. Operationalizing an INFF could help the GoU effectively strengthen the integration of its budgeting, planning and financing processes.

LONG-TERM DEVELOPMENT VISION

The Action Strategy 2017-21 sets out the GoU's sustainable development priorities. The extent of how it reflects the development aspirations of ordinary Uzbek citizens is unclear. It is an aspirational document, rather than a policy tool to guide decision-making and priority resource allocations. While stated to be aligned with the SDGs, these could be mainstreamed more explicitly across the document.

To implement its Action Strategy, at the beginning of each year the government adopts a very detailed plan of actions with somewhat more specific deliverables and priorities. These annual plans are not costed, nor come with clear guidance on how they should be financed. The availability of resources (or lack of them) is a critical challenge to the credibility of these national plans. These annual plans are openly formulated and presented to the public at the end of the preceding year for collecting feedback. This process of monitoring and organizing public consultations is administered by the Development Strategy Center, an NGO linked to the GoU.

To date, there is no long-term development vision that would set out development guidance beyond 2021. At the sectoral level, Uzbekistan has laid out its vision for sectoral development beyond 2021 in the transport sector (Strategy for the Development of the Transport System until 2035), the energy sector (Concept of Development of the Hydropower Industry 2020-2024) and specific industries (Concept of Development of the Textile, Garment and Knitwear Industry 2020-2024). A process was started to formulate a "Concept for Comprehensive Socio-Economic Development of the Republic of Uzbekistan until 2030" (henceforth: the 'Concept').

The final status and function of this Concept[68] remains unclear to date. It could be envisaged however as a first step towards developing an INFF: it provides a comprehensive and ambitious, long-term, shared vision for the country's socio-economic development path. Ideally, such a development vision would have to be articulated at a sufficiently high level to remain relevant over the longer term, while specific enough to enable informing medium-term development strategies with their corresponding action plans and sectoral policies.

In the absence of a formal national long-term development vision or strategy, the nationalized Sustainable Development Goals provide a comprehensive and internationally

[68] Currently the Concept states the GoU aims to achieve 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 USD 4,538, compared to USD 1,533 in 2018. This would require sustaining an average annual economic growth of at least 6.4 percent throughout the next decade.

supported vision for the future. The SDGs are a comprehensive and integrated development agenda that inherently supports such a whole-of-society approach. They 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) inform and strengthen the performance monitoring of the draft Concept (UNDP, 2018).

However, the socio-economic impact of the COVID-19 crisis now risks significantly derailing SDG progress in Uzbekistan. This DFA therefore aims to inform a holistic financing strategy for the GoU's COVID-19 response and recovery towards a sustainable and resilient recovery that safe-guards SDG progress.

Such an effective holistic financing strategy would require a realistic cost assessment that considers the differentiated impact of the COVID-19 crisis on different parts of the population and regions. It would specify how authorities expect different development finance flows, public and private, to cover these financing needs; along with a monitoring and evaluation system of the contribution of each development finance flows and stakeholder towards the country's development outcomes. In addition, the unfolding COVID-19 pandemic revealed the importance of mainstreaming risk resilience across the state planning system and the SDG financing architecture.

MEDIUM-TERM DEVELOPMENT PLANNING

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 balanced foreign policy). Each priority area is assigned several objectives/sub-objectives which makes the areas more tangible and easier to monitor. This framework is aligned with the SDGs.

Subsequently, many sectoral and sub-sectoral strategies, some of them costed, have been developed. Effective coordination and coherence among these multiple plans and strategies is an important challenge towards achieving development results. Duplications and contradicting priorities may lead to suboptimal outcomes.

In 2020, the Ministry of Economy and Industry was transformed into the Ministry of Economic Development and Poverty Reduction. This important institutional reform aims to improve more effective and transparent coordination of the multiple, fast-paced economic reforms. Tasked with ensuring unity of action and policy coherence across the government, the new Ministry will coordinate all medium and long-term concepts, strategies and programs for the development of industries and territories. It will also analyze all the adopted socio-economic documents in terms of their impact on poverty.

Before the end of 2020, the Ministry is expected to finalize three key strategic documents that will jointly frame the GoU's socio-economic development: i) draft Concept; ii) the Poverty Reduction Strategy; and, iii) draft decree of the head of state on introducing a minimum consumer basket and a living wage in all regions as of 2021. The concomitant finalization of these three critical development policy documents will provide a timely opportunity to mainstream their socio-economic targets across the COVID-19 recovery.

ANNUAL BUDGETING PROCESS

The MoF oversees the budget process. Based on the requests from the heads of sub-national units, the MoF prepares a draft budget for submission to the Cabinet of Ministers by September 15th. Jointly with the other responsible central government agencies, the MoF prepares a comprehensive draft Budget Message, which includes:

- Main results for social and economic development for the previous year and forecasts on budget implementation for the current year;
- State budget implementation report for the previous year and the draft State budget for the next year;
- Draft of main guidelines for budget and tax policies for the year;
- Comments to the guidelines for the budget and tax policies for the ensuing year;
- Information on the internal and external public debt and respective expenditures; and,
- Draft State budget for the fiscal year.

The completeness of this Budget Message has been improving year on year. It includes additional information on state finances, public debt and the fiscal strategy . The budget document is presented using administrative, economic and functional classifications. A major, recent improvement in the budget process is its approval by the Parliament, as historically the State Budget was introduced as a Presidential Decree.

The Cabinet of Ministers sends the draft version of the State Budget Law and the Budget Message to the Administration of the President and to the Chamber of Accounts for issuing an opinion on on the draft Law and Fiscal Strategy. Subsequently, the complete budget package, including the opinion of the Chamber of Accounts is sent to the lower, Legislative Chamber of the Oliy Majlis.

The Committee on Budget, Banking and Finance[69] 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 approved, budgetary users can make necessary adjustments up to four times a year, but within their total appropriation and upon approval of the Parliament.

The development of the State 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 reform of public investment[70] management in Uzbekistan needs to be accelerated and streamlined. An important change will be the shift from an annual exercise to a multi-year perspective from 2020 onwards. The lack of transparent data on the scope and nature of public investment in Uzbekistan complicates a detailed analysis of the performance of pubic investment program as well as its efficient management. The 2019 public expenditure review (PER) finds that: "*The volatile institutional environment and fragmentation and overlap of public investment management functions makes it difficult to ensure that the investment pipeline is the most*

[69] Referred to as the Budget and Economic Reform Committee (Комитет Законодательной палаты по бюджету и экономическим реформам) in the Law on Parliamentary Control (2016).

[70] "Public investment" is not defined in any Uzbek regulation. The legislation recognizes only the concept of 'centralized/decentralized investments' in the annual investment program. 'Centralized' investments comprise investments funded through: (i) the state budget or state targeted funds9; (ii) project financing of budget institutions financed by IFIs and bilateral creditors; (iii) project financing of SOEs through IFIs, bilateral institutions or through on-lending of funds from the Fund for Reconstruction and Development (FRD) via commercial banks. 'Decentralized' investments comprise (iv) foreign direct investment and private investments. (World Bank, 2019)

optimal for the country. There are bottlenecks at different stages of the PIM cycle, including ambiguity in project selection criteria, ineffective use of project appraisals, emphasis on meeting formal procedures, and lack of ex-post evaluation." The PER further recommends to:

- Clarify roles and responsibilities of the main actors involved in managing public investment.
- Upgrade capacity over the project cycle in terms of guidance, identification, assessment, selection, and implementation of projects.
- Adopt a socio-economic cost-benefit analysis methodology (along with affordability, and potential contingent liabilities) for project assessment and prioritization which is aligned with the GoU's long-term development priorities.
- Integrate investments into the regular budget process more transparently.

The State Budget remains more a technical than a policy-driven document. The latest PEFA[71] (2018) exercise revealed weaknesses that impede aligning the budget with the GoU's longer-term policy objectives. A critical flaw was 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. Under the PFM Reform Strategy critical progress has been made. Increasingly the State Budget (in 2019 and 2020) is reflecting 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. The strengthening of the budget process and its alignment with longer-term development objectives is moving in the right direction. Maintaining the high pace of reform will require prioritizing and sequencing reform measures appropriately. For this purpose, the ongoing development partner support to PFM has been updated and streamlined into a revised Strategy that focuses on the critical findings from the recent PEFA assessment and the IMF's fiscal transparency assessment.

STRATEGY ON PFM REFORM

With development partners' support, the GoU adopted an updated 'Strategy for Improvement of the Public Finance Management System of Uzbekistan in 2020-2024'. This Strategy foresees introducing a medium-term budget framework for the implementation of a strategic approach to fiscal policy and the introduction of a new "results/performance-based budget" system in forming the annual budget, among other objectives. This would involve introducing a new program[72] classification[73] that enables planning resource allocations over the medium-term, while considering the future impact of present resource allocation decisions. This program classification should be anchored in a wider strategic view that describes how government operations contribute to the achievement of nationwide objectives and the 2030 Agenda (UNDP, 2016).

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. An INFF could help bringing together these different existing policies, plans and strategies into a strategic program classification, aligned aligned with the draft Poverty Reduction Strategy and the rapidly evolving COVID-19 response and recovery efforts. It would provide an effective dialogue platform to support achieving this culture

71 PEFA was funded and implemented by the EU in collaboration with the WB in 2018 and 2019.

72 Programs are essentially integrated groups of activities and outputs, which consume resources to contribute to specified policy objectives.

73 A program classification is a way of describing the expenditure plan of the government in terms of its objectives.

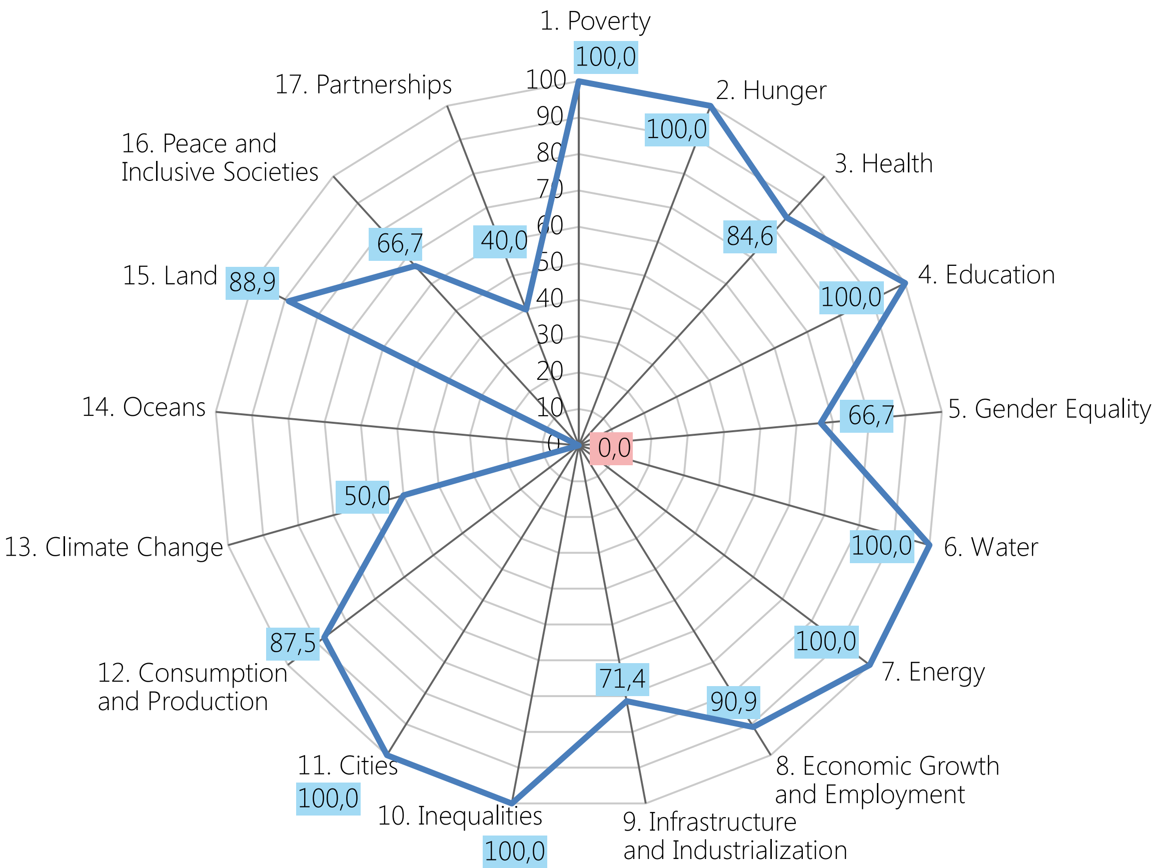
change across all actors involved. It would ensure the SDGs are integrated within the budget planning and program based budgeting.

Ultimately, successful adoption of PBB would imply achieving a significant culture change across the administration. Beyond technical reforms, this would require raising awareness and foster a shared understanding on the part of key policy makers and budget participants, including civil society, of the value of making the budget more policy relevant and less an instrument of control.

SDG ALIGNMENT OF THE STATE PLANNING SYSTEM AND ANNUAL BUDGET

The state planning system covers 105 out of 125 national SDG targets (equal to 84 percent of the targets)[74]. All national targets under the SDG 1 Poverty, SDG 2 Hunger, SDG 4 Education, SDG 6 Water, SDG 7 Energy, SDG 10 Inequalities and SDG 11 Cities were fully covered (100 percent) in the planning documents (Figure 23).

Figure 23 Rapid Integrated Assessment of National Plans and Strategies in Uzbekistan



Source: UNDP, 2020.

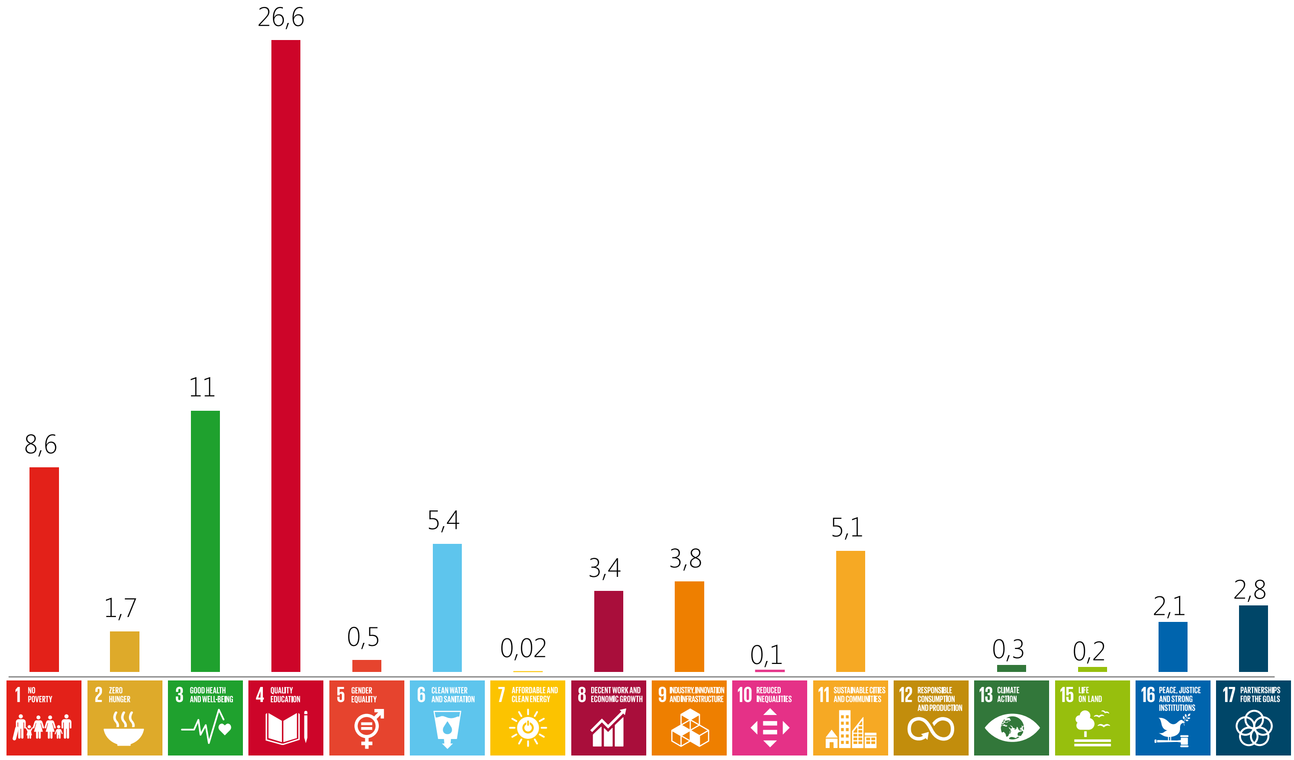
Targets that are less well-covered include SDG 5 Gender Equality (66.7 percent), SDG 13 Climate change (50 percent) and SDG 17 Partnerships (40 percent). This reveals the GoU is lagging in addressing climate change issues in its planning and policy documents. In addition, the government quite recently started to pursue more open policies aimed at strengthening partnerships with neighbors and the rest of the world.

[74] Within the framework of a rapid integrated assessment (RIA) a local expert analyzed 190 planning, policy and regulatory documents (in total) that constitute the following type of documents: a) State Programs, strategies, concepts etc.; b) Laws, legislative docs; c) President's Decrees and Resolutions, Resolutions of the Cabinet of Ministers; and d) Orders, other regulatory docs of sectoral ministries..

SDG 14 Oceans has not been nationalized by Uzbekistan. However, there may be value in considering including SDG 14 as it also relates to maintaining fish stocks at biologically sustainable levels and fighting illegal fishing practices of inland capture fisheries and aquaculture[75].

These coverage gaps may point to potential resource gaps for those respective SDGs. At the same time, the full coverage of an SDG by the state planning system is no guarantee of resource sufficiency. A preliminary assessment of public spending, conducted for the 2019 Citizens Budget reveals that 72 percent of state budget spending can be directly related to financing the SDGs (Figure 24). This mapping of national budget to the SDGs is an important first step towards an SDG aligned budgeting process. However, for this information to meaningfully inform budget allocations would require further strengthening the system to track actual spending at the level of SDG targets. This DFA argues there's a critical opportunity to mainstream the SDG targets and their corresponding performance indicators across the outcome-based budgeting process being implemented.

Figure 24 State budget expenditure for the implementation of the SDGs (percent of total expenditure, 2019)



Source: GoU, Citizen Budget 2019.

[75] Although fisheries offer a potential to contribute to rural development and food security they have not developed to their potential capacity. The fisheries sector employed an estimated 5 606 people, including 3 600 inland waters fishers and 2 000 (15% women) in aquaculture in 2016 (FAO, 2018: Fishery and Aquaculture Country Profiles).

DIMENSION 3: PRIVATE-PUBLIC COLLABORATION

A growing private sector is essential for future growth and formal job creation. This underpins a solid tax base that can support financing the transition from a state-dominated economy to one driven by the private sector.

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.

INVESTMENT CLIMATE

Since 2016, Uzbekistan has been pursuing ambitious reforms as it opens to international investors. Uzbekistan offers all the incentives commonly used around the world except investment allowances, investment tax credits, and R&D incentives. In 2019, the Uzbek Investment Promotion Agency was created under the Ministry of Investments and Foreign Trade. The country counts 21 free-economic zones where investors benefit from full exemptions on income tax and custom duties, social infrastructure and uniform SME taxes and the compulsory contributions to the Road Fund. It provides incentives for "Innovative Techno-parks" with the purpose of encouraging investment into innovative technologies including chemicals, bio-technology and information technology.

Speeding up FDI flow into the country's SDGs requires a level playing field for foreign commercial investors. Investors value a stable economic environment, strong rule of law, and effective property rights more than the availability of tax incentives. Government control of key industries has discriminatory effects on foreign investors. For example, the GoU retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government 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. The recent economic reforms are important steps in the right direction.

Investment treaties

As important as the quantity of FDI is its quality[76]. Bilateral investment treaties (BIT) can be an important instrument to attract better quality FDI. Uzbekistan has signed BITs with 51 countries, of which five haven't been ratified, including with Belarus, Republic of Korea, United States, Turkey, and Bahrain[77]. There is some degree of difference across these BITs, notably regarding dispute settlement provisions (Tulyakov, 2019). Furthermore, recent case law demonstrates that the enforcement of foreign arbitral awards in Uzbekistan is still unpredictable in its application of the 1958 "New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards" to which Uzbekistan is bound[78]. Streamlining and applying a standard and transparent approach to international dispute arbitration across the existing and future BITs may underpin government efforts to position Uzbekistan as a regional arbitration hub. The World Bank supported 'International Centre for Settlement of

[76] The Addis Ababa Agenda specifically refers to the need to regulate to align private investment and public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment.

[77] Unctad's International Investment Agreements Navigator

[78] http://arbitrationblog.kluwerarbitration.com/2019/11/11/enforcement-of-arbitral-awards-in-uzbekistan-challenges-and-uncertainties/?doing_wp_cron=1596964744.9815208911895751953125

Investment Disputes', to which Uzbekistan is a signatory, could be a useful mechanism to strengthen international arbitration practices in the country.

Furthermore, the country may benefit from an exhaustive review of the SDG alignment of its BITs and free trade agreements (FTAs). The SDG alignment of BITs and FTAs could be strengthened by e.g. including provisions on social and environmental standards as well as public health[79]. Environmental clauses in BITs may allow treating socially and environmentally desirable investments more favorably than investments in brown sectors (Page, 2018). It is important that future BITs safeguard sufficient policy space for host states to enable regulating when FDI is deemed damaging to the country's sustainable development priorities[80].

Only nine free trade agreements (FTAs) are in force between Uzbekistan and other countries, and the country has no FTA covering services, which could help the economy not only link up to value chains but also higher value added activities.

The GoU plans to develop a 'Medium-Term Investment Policy Strategy until 2025'. This Strategy would 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 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. To date, the status and the effective implementation of this Strategy remain unclear.

For this Strategy to become a strategic pillar of Uzbekistan's green and resilient COVID-19 recovery programme requires its effective coordination with other key strategies. These include the draft Poverty Reduction Strategy, the 'Strategy on the Transition to a Green Economy' and the new 'Concept for ensuring reliable energy supply to Uzbekistan towards 2030'.

Public-Private Partnerships

The intention of the government to reduce its presence in the economy, and to reduce the tax burden for companies, increases the difficulty of allocating sufficient budget resources towards addressing the increasing infrastructure investment gap. The GoU intends to use public-private partnerships (PPPs) to channel increasing levels of private investment towards infrastructure investments in energy, communal services, transport, health care, education, culture and tourism. When well-designed and implemented in a balanced regulatory environment, PPPs can bring greater efficiency and sustainability to the provision of public services, thus allowing to free-up scarce public resources for other purposes. PPPs are also expected to provide additional revenues to the GoU through the fees and taxes and other indirect spill-overs.

Since 2018, Uzbekistan has adopted the PPP Law, creating significant investment opportunities for local and international private investors to take part in the economic growth of Uzbekistan. In addition, the PPP Development Agency (PPPDA) was created to facilitate and coordinate PPP project development, including project screening, reviewing feasibility studies, and drafting tender documents and PPP contracts. Production sharing agreements and public procurement are excluded from the scope of the law. The PPP law provides a

[79] https://www.transnational-dispute-management.com/journal-advance-publication-article.asp?key=1787

[80] The recent Uzbekistan-Turkey BIT is a good example of how to clarify host states regulatory powers.

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.

The Agency for PPP Development acts primarily as a project manager for the Government and facilitates PPP development.[81] The Agency currently lists a total of 66 PPPs across different sectors which it is developing along with international financial institutions. The total value of investment is estimated to be at least USD 8 billion.

The eleven listed energy projects account for almost 70 percent of total planned PPP investments. Most of the funds are directed to the construction of new energy facilities – thermal power plants, as well as photovoltaic and wind-based solar and wind power stations. For example, Uzbekistan intends to use the PPP to develop a 1,500MW combined cycle gas (CCGT) plant in Syrdarya. Ongoing PPPs in the energy sector include the design, financing, construction and operation of 600MW of solar energy capacity in Samarkand, Jizzakh and Sherabad with the Asian Development Bank. The GoU is also promoting PPPs in the agriculture sector, but no projects have been listed to date. The Government is considering decentralizing PPP activities to support local government bodies in the fields of pre-school education.

To support PPP projects the GoU if needed may provide financial support through subsidies (including ensuring a guaranteed minimum profit of the Private Partner under the Project); invests its own financial resources or property; and purchases a predefined amount of goods and/or services provided by the PPP. Government can also use guarantees, tax and other advantages or compensations to underpin the viability of PPPs.

Through PPPs the private sector could make a significant contribution to the SDGs in Uzbekistan, especially SDG 9 (resilient infrastructure and sustainable industrialization). By supporting SDG target 9.1[82] it would enable progress in access to quality education, healthcare, water, and sanitation, while also focus on those hardest to reach. However, the GoU's current approach to PPPs seems to have little practical connections to the nationalized SDGs.

Promoting entrepreneurship and SME

The main obstacle that holds back private sector growth is the strong presence of the state in the economy (EBRD, 2019). The preferential access of SOEs to resources such as land, infrastructure, financing and government procurement, and the de-facto execution of state functions by them such as standardization and other regulations, put private businesses at a disadvantage and prevent them from fully exploiting their potential. The authorities have started to reduce state overregulation and interference in the economy, and the business climate has begun to improve. Property and other business rights are still not always well protected, not least due to the limited capacity of courts to review commercial and economic disputes (EBRD, 2019).

State-directed lending, mostly to SOEs, has constrained access to finance for private companies, especially SMEs. State-directed lending is largely carried out via state-owned banks. The government provides concessional funding to banks via UFRD loans, loans from the treasury, deposits at the commercial banks, and recapitalizations. These SOBs 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

[81] For a full list of duties and authorities see Art. 12 of the PPP Law.

[82] "Develop quality, reliable, sustainable and resilient infrastructure…to support economic development and human well-being, with a focus on affordable and equitable access for all".

to reduce distortionary directed credit and other non-transparent support to state-owned enterprises. Uncoordinated 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, for example harnessing households' savings or tapping into international debt markets. Banks would be limited in their ability to intermediate the economy's savings to fund investment projects and support more inclusive growth.

At around 29 percent of GDP, credit to private sector is moderate compared to the regional peers. Uzbekistan ranked 55th out of 190 countries in Getting Credit according to the World Bank's 2018 Doing Business report. Firms report that complex application procedures and high collateral requirements are the second and third most important reasons for not using formal finance. 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. Financial inclusion is therefore constrained on the supply side.

Because of this high borrowing cost most households and firms, rather than using formal finance, save and borrow informally, and few use digital finance products (Ahunov, 2018). Accessing business finance is particularly challenging for women, young people and individuals in Tashkent and southern Uzbekistan (EBRD, 2019). There are significant regional disparities with regards to access to finance for starting up new businesses.

Promoting entrepreneurship ranks high on the priorities of the GoU. Over 50 percent of the Presidential decrees issued have dealt with the promotion of entrepreneurship and small businesses.[83] According to the World Bank's Doing Business ranking these reforms are starting to pay off. In their 2020 ranking the country was listed as the world's top twenty most improved economy for ease of doing business. Uzbekistan ranked 69th globally with a score of 69.9 out of 100 this year, having moved up from 76th place in 2018.

The State Entrepreneurship Development Support Fund was created in 2017 to provide SMEs with financial support, both in national and foreign currency. This Fund is co-financed by loans and grants from development partners. The EBRD has provided a loan of EUR100 million for the programmatic support of SMEs and development of small businesses and entrepreneurship. The Fund provides guarantees and compensations for loans, as well as resources for banks to finance projects in the agricultural sector.

In 2018, the GoU launched the microcredit program 'Every family is an entrepreneur'[84] to foster regional development. The program's aim is to provide low-cost credit to households to spur economic activity that leads to self-employment and micro-entrepreneurship. The approaches are strongly focused on the supply of credit to asset and equipment induced entrepreneurship, including the supply to agribusiness-related home-based businesses (greenhouses, pedigree cattle, sheep, catfish fingerlings) as well as sewing machines and other equipment involved in small manufacturing of consumer products (Tadjibaeva, 2019).

The lack of nonfinancial services, such as advisory services, business development, incubation, and market support, undermine the effectiveness of these SME financing instruments. Around 60 percent 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 (Ibid.). This is especially true for SMEs operating in the

[83] https://mfa.uz/en/press/news/2019/07/20183/?print=Y

[84] 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.

regions, where 70 percent of SMEs do not know any private BDS providers. Public–private dialogue, and especially the role of business associations in promoting BDS, remains limited.

The microfinance sector in Uzbekistan is underdeveloped, fragmented, and unsustainable (IFC, 2016). The few microfinance institutions (MFIs) in the country have a very limited level of penetration and access to funding. Most of the MFIs are also small with limited to no branch outlets. Microcredit organizations account for only 10 percent of the overall micro credit portfolio, whereas 90 percent 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 their shareholders' resources. However, these have proved to be limited and volatile over time thus hindering the growth and stability of the sector.

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. CSR activities remain voluntary in Uzbekistan, with a narrow focus on responsibility to the own employees and the community (Ayupov and Komilova, 2010). 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 Uzbek companies' operating business model, whereas in the West companies engage in CSR to gain social legitimacy within the society they are operating. There is no strong stakeholder influence or supply chain requirements that would motivate them to engage in CSR[85].

The GoU's main instrument to foster the above kind of CSR is through tax incentives. For example, charities may claim a tax deduction up to 75 percent of the granted sponsorship, up to a limit of 15 percent of the total amount of the giver's annual taxable profit. Creating a more tax enticing environment, e.g. according to specific sustainable development criteria which would benefit from higher tax deductions, CSR activities could be harnessed for 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 and generate better policies.

Setting up a UN Global Compact Local Network could be a practical way forward to advance the Global Compact Initiative and its Ten Principles at the country level. This would help raising awareness regarding responsible business conduct and facilitate outreach, learning, policy dialogue, collective action and partnerships to put their sustainability commitments into action. Local networks of the UN Global Compact have proven efficient instruments to promote anti-corruption collective action[86].

The OECD (2019a) also recommends the active involvement of the business community, through business associations, in ensuring business integrity. This could be championed by the UN Global Compact Local Network for instance and support the implementation of the GoU's anti-corruption policies across SMEs. To date, anti-corruption tools are implemented by multinational companies, foreign-equity firms and large SOEs. The GoU may want to consider instruments to incentivizing businesses to introduce anti-corruption instruments.

[85] https://carecsr.com/2019/05/13/how-csr-can-help-businesses-in-uzbekistan/

[86] Through the anti-corruption Collective Action projects of the UN Global Compact, businesses, Governments and civil society can level the playing field and raise anti-corruption and compliance standards within their individual organizations as well as collectively.

The newly established agency of the Business Ombudsman is a practical improvement to protect entrepreneur rights.

Increasingly, the multinational companies operating in Uzbekistan have launched several society-centred programmes as a part of their CSR activities. For example, the American Chamber of Commerce (Amcham) in Uzbekistan has established a separate CSR Committee, with whom the GoU could collaborate to strengthen CSR policies and consider the role of MNEs to contribute a durable and resilient recovery of COVID-19[87]. For example, setting up a COVID-19 Solidarity Support Fund to be financed by international businesses and philanthropists.

FINANCIAL SECTOR DEVELOPMENT

The financial sector in Uzbekistan is mainly represented by banking structures. The insurance market, leasing market, and the stock market are poorly developed and often the players in these markets are directly or indirectly connected with banks (they are subsidiaries of banks). Banking penetration is medium with 41 percent 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 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 envisions a new wave of initial and secondary public offerings related to the government's broader privatization drive[88]. The agency is also seeking to encourage the development of local retail investing and pension funds to enable Uzbekistan's working and middle classes to participate in the expansion of the stock market.

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 to meet the financing requirements of their own transformation plans.

Financial inclusion

Harnessing digital technology could accelerate financial inclusion. The population is showing increasing interest in technology adoption as evidenced by the increasing smartphone penetration and take up of electronic payments. These factors provide an opportunity for expanding digital financial services, including financial inclusion via mobile payment platforms, digitally enabled local entrepreneurship, innovative health and education delivery systems, and growing numbers of e-government initiatives.

[87] See: http://amcham.uz/corporate-and-social-responsibility-committee/

[88] 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 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 cash 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).

Mobile Network Operators (MNOs) are currently not allowed to provide digital financial services in Uzbekistan. Experience from other countries indicate that opening financial services to non-bank financial institutions, including MNOs, may accelerate the uptake of financial inclusion. Under the leadership of the CBU, a multi-stakeholder technical working group, involving the industry's leaders, could inform regulatory reforms that would enable the rise of digital financial services and fintech in the country.

HARNESSING REMITTANCES AND THE DIASPORA

The sheer size of remittance inflows turn them into an important opportunity to finance development in Uzbekistan. 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. In Uzbekistan, an important spending category of remittances is traditional ceremonies, such as weddings. Research shows that weddings account for almost as much remittance money as housing (18-20 percent), which is still less than what is spent on food (24 percent), but more than on health (7 percent) and education (10 percent) (Prokhorova, 2017). Geographic inequality of remittance distribution persists in Uzbekistan. Most remittances are sent to the Samarkand and Syrdarya regions of the country. At the same time, the largest number of migrants comes from the Samarkand and Kashkadarya regions, while the smallest number comes from the urban areas of Tashkent and Navoi (Irnazarov, 2015).

Uzbekistan has a relatively large (over 10 million), but concentrated diaspora[89]. Most Uzbeks are spread in the neighboring countries (Afghanistan, Kazakhstan, Kyrgyzstan, Russia 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. A scoping study might be advisable to assess the likely scope and nature of financing that could be raised from the Diaspora, before engaging in significant reforms: so far, emerging Central-Asian countries are considered countries of origin of diasporas, but not yet as countries wherein diasporas want to invest and work (Elo, 2016).

Currently there are no policies, instruments or institutions dedicated to harnessing remittances and the diaspora more strategically. Undertaking any meaningful reform may require improving the extent and quality of information available to actual and potential migrants—many of which come from under-developed and isolated rural parts of the country. This would involve developing detailed profiles of the Uzbek diaspora by location, economic activity, skills profile, earnings, savings, and investment profile as well as identifying representative associations with whom to collaborate for implementing such a strategy. This information could inform a tailored approach towards channeling diaspora financing and remittances to local economic activity in construction, communications, wholesale and retail trade, personal services, and other sectors.

[89] IOM defines diasporas as "migrants or descendants of migrants, whose identity and sense of belonging have been shaped by their migration experience and background."

CIVIL SOCIETY PARTNERSHIPS

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. Hover, effective models of genuine public-private partnerships remain under construction in Uzbekistan. 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 to support open and constructive exchange of views between various political options.

Uzbek law provides for freedom of association, but the government continued to restrict this right[90]. Authorities sought to control NGO activity, internationally funded NGOs, and unregulated Islamic and minority religious groups. In practice, the operating environment for independent civil society, human rights defenders, remained restrictive, although several activists reported improved cooperation with government officials. The NGO law requires that organizations with an operating budget and funds register formally with the government. It also requires that NGOs file annual reports to the government. Registered NGOs can receive grants from domestic and foreign donors, but 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.

In practice, civil society organizations are mostly excluded from the policy process and relegated to non-political matters. The third sector is dominated now by government-organized NGOs (GONGOs), 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. The Parliament's 'Public Fund for the Support of Nongovernmental, Noncommercial Organizations, and Other Civil Society Institutions' conducts grant competitions to implement primarily socioeconomic projects. Some civil society organizations criticized the Fund for primarily supporting GONGOs. There are a few independent NGOs that are active and realize various projects in the sphere of environmental issues[91].

For a robust and lively civil society to flourish in Uzbekistan, and act as a partner in sustainable development, for example, through an INFF, further steps are necessary to liberalize the legislation on non-government non-profit organizations. Current laws governing NGO registration, financing, travel, events, are excessively restrictive and are not in compliance with international standards. This means that civil society capacity to monitor government reform, or to act as a countervailing force against arbitrary state action, remains limited. One factor that can strengthen civil society capacity is effective enforcement of the Right to Information Law. This will enable citizens to directly hold the state accountable for its actions by demanding information on how decisions are made, how public money is spent, contracts awarded, among other things.

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

[90] https://www.state.gov/reports/2019-country-reports-on-human-rights-practices/uzbekistan/ .

[91] For example: ECOSAN (Ecology and Sanitary) being one of the most prominent one.

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.

Known philanthropy inflows to Uzbekistan are limited. From 2013 to 2018 Uzbekistan has received USD 0.79 million in total.[92] The Bill and Melinda Gates Foundation (BMGF) has provided over two thirds of the total (iUSD 0.5 million). The real sum is likely larger 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 percent of the taxable income.

Faith-based financing

Zakat[93] 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.[94] Globally there is mounting interest in developing financing instruments compatible with sharia law.

For Uzbekistan, faith-based financing represents untapped sources of development finance. The lack of data makes it difficult to estimate the current collection of *Zakat*[95] and hence its development financing potential. As Uzbekistan practices a decentralized model of *Zakat* collection, there are many disparities between mosques in the cities and rural communities[96]. Addressing this knowledge gap through a detailed study, along with comparing the Uzbek context with other countries' experiences could inform the creation of an enabling environment for faith-based financing.

[92] OECD/DAC data

[93] Zakat is a unique form of religious social welfare which benefits the whole community. It requires Muslims to give 2.5% of their qualifying wealth each year to help Muslims who need it across a range of categories. Zakat is both a spiritual duty and a vital part of the Islamic social welfare system.

[94] For instance, the Pew Research Center has estimated that in Indonesia, 98 percent of Muslims comply with Zakat requirements (see: Pew Research Center, 2012).

[95] 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).

[96] Practices show that both centralized as well as decentralized collection of Zakat function almost equally well.

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. Through an INFF, the GoU can bring together these different strands of information and establish a clear picture of the impacts that different types of investment are having on SDG outcomes, and crucially whether those investments are also cost-effective.

This dimension looks at the quality of public and private monitoring systems and their ability to inform policy processes. 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. It relies to a large extent on the findings and recommendations from the 2018 Public Expenditure and Financial Accountability Performance Assessment Report and the 2019 Public expenditure review.

MONITORING PUBLIC SPENDING

Overall, the PFM evaluation in Uzbekistan shows good monitoring mechanisms that ensure fiscal and budgetary control at a high operational level. It also demonstrates that mechanisms are in place to ensure fiscal stability and sustainability. However, the purpose of the monitoring set-up is mostly geared towards complying with revenue and expenditure related objectives and less towards monitoring the performance of public services. Ensuring effective and efficient use of public resources would therefore requires incorporating mechanisms to monitor the quality of public service delivery as well as progress towards achieving the nationalized SDGs. The rise of COVID-19 related pressures on the GoU's available public resources have turned a more cost-efficient use of these resources into a whole-of-government imperative.

Efficient Use of Resources for Service Delivery

The significant share of off-budget spending, through both EBFs and off-budget accounts, presents a critical challenge to monitoring the efficiency of public finances. Many of these parastatal funds are controlled and managed by the line ministries and are used for specific policy purposes. Furthermore, line ministries operate many minor funds, which raise the revenue directly, outside MoF and State Treasury. For example, public wages are sometimes paid from both budgetary and off-budgetary sources, resulting in disparate compensation for the same work across regions.

Off-budget spending is not subject to the same budget processes, monitoring, or accountability. Therefore, authorities have no comprehensive view of all government spending when making decisions. Most EBFs do produce annual financial reports and annual budgets. However, many of them are not integrated into the State Budget, or are not used to produce the General Government Budget. The authorities intend to increasingly consolidate these funds into the budget from 2020, but progress has been slow.

Besides EBFs, there is a need to also fully identify and reflect the operations of the State Targeted Funds and SOEs in the State Budgets[97]. The exclusion of possible contingent liabilities from SOEs in the State Budget poses fiscal risks to public finances. The economic and financial situation of public corporations is being monitored using specific key performance indicators. The GoU may want to consider introducing ESG criteria in their SOEs' corporate reporting requirements to better monitor how they are contributing to sustainable development. Subsequently, annual consolidated reporting of this information along with their financial performance could made available publicly.

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 institutional environment for public investment has been subject to significant reforms since 2018. It is expected that the ensuing increased clarity concerning the roles and responsibilities of the main actors[98] involved will benefit public investment management. The effective implementation of the new public investment framework requires building the capacity of all staff involved across the entire investment project cycle (guidance, identification, assessment, selection, and implementation). Although all investment projects are prioritized by central entities based on published general and broad standard criteria for project selection, political considerations remain influential. Appraisals of public investment projects are not always published.

Maximizing the development impact of the GoU's planned increase in public investment projects soon would require a stronger alignment of selection procedures and project performance monitoring frameworks with the SDGs. Uzbekistan's nationalized SDGs can provide a useful over-arching framework to maintain coherence across the performance monitoring criteria and indicators used across the different areas of public finance management.

Uzbekistan's tax incentives' magnitude[99], opacity and uncertainty as to their cost-effectiveness represent a clear opportunity to improve the monitoring of public finances along with rapidly generating additional resources. Policy makers including the parliament need to have the full information as to the cost and benefits of the tax incentives to make informed and transparent decisions regarding their use. This requires making periodic assessment of the impact of tax incentives, in terms of the investment that has been promoted and its impact in relation to economic and other sustainable development objectives, along with including annual tax expenditure statements within the budget process. These tax expenditure statements should cover all tax incentives under all the major taxes including customs exemptions.

Nearly a third of the overall tax benefits are provided by government decrees[100]. Discretion on provision of tax incentives reduces the efficacy of the investment policy regime as it creates

[97] 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).

[98] National agency for Project Management (NAPM), the State Investment Committee, the Ministry of Finance, the Ministry of Economy and other actors in the public investment management cycle.

[99] See section on government revenue in the first chapter.

[100] The Tax code stipulates that tax incentives can be effected by the Tax code itself or by the decisions of the President of the Republic of Uzbekistan only to reduce the tax rate by not more than 50% and for a term not exceeding 3 years on certain taxes, except for VAT, excise tax under production and/or sales of goods, as well as the resource tax.

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 would 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.

Internal and external scrutiny

The latest PEFA assessment (2018) 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 percent of total budgeted expenditure and 84 percent 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 (2018) notes that the Parliament cannot analyze 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 sufficient to hold the government accountable for its fiscal and expenditure policies, and their implementation. It is carried out annually 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.

The Parliament's oversight of the budget process is gradually improving. From the next budgetary cycle (2020-2021) onwards the Parliament should, when discussing the Draft Budget, take into consideration the mid-term planning documents and long-term perspective when assessing the annual budget proposal. While political control has been introduced across the entire budget-preparation and execution processes, there is still relatively little political participation in linking the strategic planning targets with the available resources needed for their realization.

Curbing corruption to finance Uzbekistan's priority development outcomes[101]

In Uzbekistan, the level of corruption remains high[102] and trust in government is low. Uzbekistan ranked 153rd out of 180 in the annual Corruption Perception Index in 2019, rising to 5 positions at once compared to 2018 year. Press reports indicate that over USD

[101] This subsection draws on the analysis provided by OECD (2019a), 4th round of monitoring of the Istanbul Anti-Corruption Action Plan.

[102] Uzbekistan ranks 153rd out of 180 countries in Transparency International's Corruption Perceptions Index 2019.

1 billion (2 percent 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[103] reveals that the state's most corrupt spheres are SOEs 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 addressed, eventually undermining human capital development. This risk is highly relevant considering the large inflows of COVID-19 related finance channeled towards the national health system[104].

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. Realizing that objective requires a well-resourced/capacitated approach, based on a more in-depth review of the current situation, responses and in-country capacity. This recommendation is planned by the UNODC under the Joint Programme of the UN Joint SDG Fund.

The private sector also stands to gain enormously from effective action on corruption by 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, analyze and share data to prevent, detect, and deter corrupt behavior. 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.

Uzbekistan has initiated ambitious anti-corruption reforms[105] 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

[103] 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.

[104] Indications start to emerge in the press about alleged corruption in COVID-19 related spending: https://en.fergana.news/news/120819/

[105] The recently adopted Law on Combating Corruption introduces the legal framework and an effective institutional mechanism for ensuring coordinated anti-corruption policies and measures.

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. The recent creation of the Anti-Corruption Agency in June 2020 will likely benefit effective implementation of existing anti-corruption measures.

MONITORING DEVELOPMENT OUTCOMES AND AGENDA 2030

Uzbekistan is strongly committed to achieving the SDGs and is setting itself up to deliver on the 2030 Agenda. In 2018, 16 national Sustainable Development Goals (SDGs) and 125 corresponding targets were adopted. Simultaneously, an inter-agency Coordination Council for implementing the national SDG Roadmap was established. A web-portal was launched with data on about 100 indicators and work is underway to establish data collection on the remaining 100 indicators.

In 2018, the GoU established an Inter-Ministerial Coordinating Council (ICC) for the implementation of the National Sustainable Development Goals and Tasks for the period up to 2030. It is chaired by the Deputy Prime Minister, the Minister of Finance and the Minister of Economy and ensures the horizontal coordination on sustainable development issues at the national level. The ICC 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 consist of 108 representatives of some 40 ministries and government committees, NGOs, think tanks, and law enforcement structures. In February 2020, a bicameral Parliamentary Commission on SDGs was established to monitor and facilitate the implementation of the SDGs in Uzbekistan and support the presentation of Uzbekistan's first Voluntary National Review in July 2020.

Despite not having met once since its inception in October 2018, the ICC's chairman has approved several documents supporting the implementation of SDGs, including the list of 128 national SDG indicators, and the roadmap on VNR preparation. Prepared by the Uzbekistan State Committee on Statistics (SCS), these 128 nationalized SDG targets are the basis of the country's SDG monitoring system. The main tool for monitoring and disseminating data on SDG indicators is the national SDG reporting platform. 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. In July 2020, the country also presented its first Voluntary National Review at UN ECOSOC's High-level Political Forum.[106]

Despite this explicit SDG implementation architecture, ownership of the SDG agenda remains inconsistent across all government ministries and agencies. This is evidenced by the different level of integration of SDGs in sector policies and strategies. The conclusion and presentation of the country's first voluntary national review (VNR) at the 2020 HLPF marks an important step in setting up a more systematic approach towards tracking progress in implementing the 2030 Agenda.

Conducting a VNR enables strengthening policy coherence and integration as well as underpinning stakeholder engagement and advocacy. The ownership and momentum it

[106] https://sustainabledevelopment.un.org/index.php?page=view&type=30022&nr=2180&menu=3170

creates across the broad range of stakeholders could be harnessed to accelerate reforms towards involving these stakeholders in the GoU's formal monitoring and reporting processes of the SDGs and the challenges highlighted in the VNR. An INFF could help to practically integrate the monitoring of the SDGs, the national Action Strategy, the draft Concept, draft Poverty Reduction Strategy and the emerging COVID-19 recovery approach under the same institutional roof. 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).

International monitoring of SDG progress by the UN Sustainable Development Solutions Network ranked Uzbekistan 66th out of 193 countries in 2020 (Table 4). Its global index score equals 71.0 which is 1.0 percent above the regional average and in line with countries like Kazakhstan, Colombia, Albania and Mexico.

Table 4 Overview of SDG progress

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.

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[107] 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

[107] Scholars and practitioners alike have questioned Uzbekistan's official data published before 2017.

international organizations[108]. A critical weakness of the Uzbek SDG monitoring system is the lack of up-to-date, accurate population estimates[109]. The planned population census in 2022 should be given a high priority and full support from the highest political levels.

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, favor the demonstration of good outcomes rather than accuracy.

108 a list of 35 indicators, to be used for ranking all municipalities for performance evaluation purposes

109 The latest population census dates back to 1989 (UNECE, 2018).

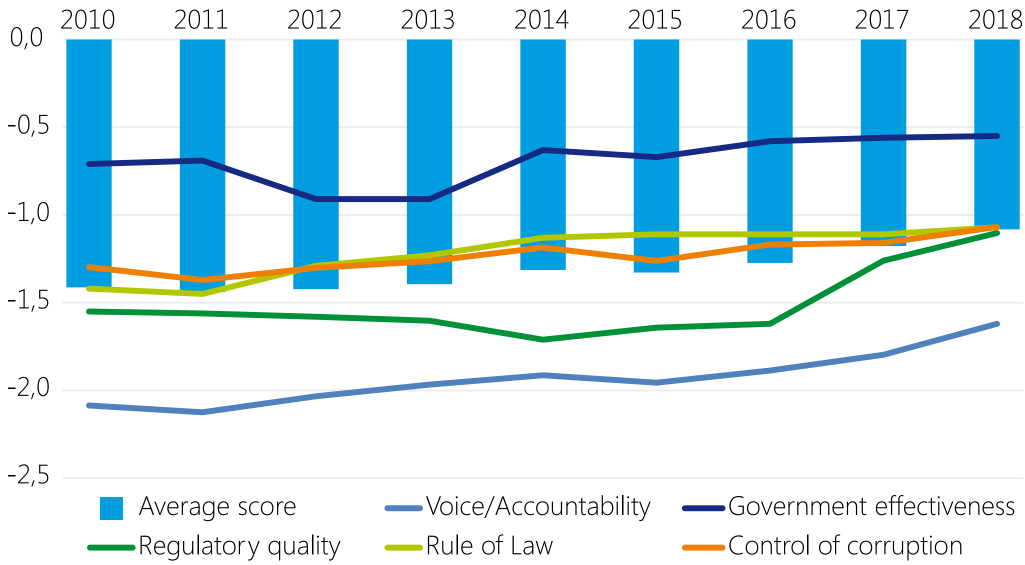
DIMENSION 5: TRANSPARENCY AND ACCOUNTABILITY

Mutual accountability and transparency support effective partnerships, strong monitoring and enable greater effectiveness in the impact of financing. For the GoU, it encompasses fiscal transparency and increased 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 dimension of the DFA looks at opportunities to enhance information sharing by government and other development actors and to strengthen mechanisms for the scrutiny and accountability of their development finance.

POLITICAL TRANSFORMATION AND GOVERNANCE

The scores for the World Bank's Quality of Governance (QoG) indicators throughout the previous period of autocratic regime (pre-2016) are very low. They have been slowly improving since 2010, albeit starting from a very low base (Figure 25). The latest data seem to indicate that the wave of reforms undertaken since is slowly speeding up necessary improvements across these different governance indicators.

Figure 25 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[110], the government has set a high bar for itself. Maintaining a paternalistic form of governance, which restricts civil society freedoms and human rights, stifles bureaucracy and indulges corruption may clash with the expectations of a growing young population facing a dire economic future (Chatham House, 2019).

[110] The 2016 presidential campaign promised strong efforts to tackle corruption and modernize the civil service.

Fulfilling these citizens' expectations will require prioritizing the strengthening of independent institutions. Small and innovative steps have been taken to improve the rule of law[111], but more can be done, including more transparent 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).

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. Budgetary transparency and control are slowly improving.

The Law on Parliamentary control has introduced a much needed, stronger role for the Parliament, which is now tasked with questioning and examining the budget from the moment it is sent to the Parliament, and monitoring the execution of the budget. Historically, the parliament was never actively substantively engaged in budget processes. In addition to recent amendments to the Budget Code to allow for greater role of the parliament in budget appropriations, in 2019 a special Budgetary Department/Office was established within the Legislative Chamber of the Oliy Majlis. Among other things, this Budgetary Department provides analytical and information support to the members of the Legislative Chamber during deliberation of the state budget, approval and further control and monitoring of its implementation and execution. However, the parliament's de facto capacity to effectively influence budgetary decision is minimal. Development partners provide capacity building to strengthen the role of the Parliament and civil society in the budgetary process, including supporting the preparation of the annual Citizen Budget.

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 its 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 to investors.

Public disclosure of information is becoming a critical feature of PFM systems in the country. Over the years several initiatives have demonstrated 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".
- In 2015, the Government launched an open data internet portal, which is meant to serve as a "single access point" to the open data Different Government agencies have already taken first steps towards implementing the Fiscal Transparency Code and the Law on Openness, some with support from UNDP.
- An important improvement towards enhancing transparency of public spending was the publication of the first, annual Citizen's Budget[112] in 2018. These provide civil society with

[111] 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.

[112] The 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.

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.

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 channeled through the Single Treasury Account (STA), and the annual budget execution report includes both the State budget and the State targeted funds. What remains missing are pre-budget statements, information on tax expenditures and medium-term macroeconomic forecasts.

The public's access to this fiscal information, however, does not comply with international standards (World Bank, 2019). 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.

Uzbekistan is slowly progressing towards implementing the 'Law on Openness of Bodies of Government and Administration'. 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

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.

According to Uzbekistan's central-local government 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, thus limiting ownership and accountability.

The GoU's intention to increase efficiency and accountability of public service delivery through introducing PBB may be limited by its tendency to maintain strong, central oversight. Public managers should be held accountable for the achievement of stated objectives and not for the mix of resources used for attaining those objectives. Strengthening accountability of public spending would therefore require an overhaul of public management style practiced so far, 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 (UNDP, 2016).

To strengthen civil society contribution to the State planning process, the created the Strategy Development Center. This GONGO involve the work of several local organizations, including the Independent Civil Society Monitoring Institute, the Legislation Monitoring Institute, the Chamber of Commerce and Industry, the Chamber of Advocates, the Academy of Public Administration, the National Association of Electronic Media, and the National Association of NGOs. The Center is intended to consolidate efforts of these institutes to facilitate expert and public discussions on reforms outlined in the five-year development strategy. Public review of the legislation can be implemented through a dedicated website.

KEY FINDINGS

This DFA reveals that available development finance falls short of financing needs to achieve the SDGs. The onset of the COVID-19 crisis risks further widening this financing gap and undoing SDG progress. Avoiding this requires concerted action to scale up ongoing efforts to build the enabling environment (legal, political, regulatory, etc.) and the supporting ecosystems (institutions and actors) for increasing the impact of the different forms of financial resources towards achieving the SDGs in Uzbekistan.

This first assessment of Uzbekistan's development finance context identifies the scale of the challenge ahead. Its key findings are summarized according to the four building blocks[113] of an INFF (Table 5).

Table 5 Baseline for an Integrated National Financing Framework in Uzbekistan

ASSESSMENTS AND DIAGNOSTICS	
Assess Public Spending Needs and Financing Gaps	• There are no estimates available for total financing needs to achieve either the nationalized SDGs or the Action Strategy. Partial SDG costings are available from the IMF and UNESCAP. • Total available finance flows for 2020 are projected to decrease 17 percent in 2020, equivalent to about USD 9 billion, to a large extent driven by the impact of the COVID-19 crisis on the economy and the international environment.
Map Available Financing Flows	• This DFA is the first attempt to systematically map all existing development finance flows, including projections until 2025, along with identifying SDG financing opportunities and challenges. • Prior to the COVID-19 pandemic, the available development finance to Uzbekistan was increasing too slowly to meet the country's increasing financing needs. • Uzbekistan's Total available development finance for 2021 onwards is projected around 77 percent of GDP.
Conduct regular Risk Assessments	• Uzbekistan's prudent macroeconomic management implies limited financial risks. However, the recent economic liberalization and the increasing reliance on external debt may require strengthening authorities' financial risk assessment practices. • There is no effective risk assessment system for managing public assets and liabilities. • International good practices to contain corruption risk in public finance management are being implemented gradually. There is limited effective participation of non-state actors towards containing corruption risks. • High level of environmental and livelihood vulnerability to climate shocks and disasters, with limited mainstreaming of systematic environmental risk analysis across policy planning.

[113] See figure 1 in the introduction.

Identify policy, institutional and capacity binding constraints	• Limited institutional and administrative capacity is a major constraint on effectively accelerating SDG financing in Uzbekistan. The magnitude and scope of the ongoing economic and social reforms, combined with the required change in the role of the state to enable this transformation, poses significant strain on the public administration system. • The fundamentals of a modern public finance system, currently being implemented through the PFM strategy, may not yet sufficiently be in place to effectively implement certain SDG financing solutions, such as PBB. • Building capacity across a wide range of institutional actors involved in the PFM process should therefore be a core focus of development partner support. • The lack of performance-based budgeting, inadequate links between budgetary outlays and stated programme objectives and the limited public financial management capacities challenge budget execution. If these persist, it may undermine the publics' trust in government. • Limited administrative capacity, frequent reorganizations of ministries and departments, high staff turnover, weak internal coordination, and absence of a cross-government approach, are also significant impediments to achieving the SDGs. • Pervasive corruption in the civil service saps resources and undermines policy implementation.
HOLISTIC FINANCING STRATEGY	
Policies for Public Finance	• A critical gap in Uzbekistan's SDG financing approach is the lack of a single, clear, long-term development vision towards 2030 or beyond. Uzbekistan's National Action Strategy 2017-21 is not costed and does not indicate how it will be financed. The annual action plans are more detailed and prescriptive, but are no holistic, integrated approach to financing Uzbekistan's Agenda 2030. Existing policy documents and institutional processes that constitute the country's long-term development priorities are overlapping in scope, time and means. This confuses authorities' capacity to identify clear financing needs and target priority reforms towards meeting those needs. • The functioning of the former strongly state-led economy has resulted in a complex and opaque public financing system. The GoU has made strong progress to modernize and streamline public finance management, but much remains to be done. • The effective implementation of the PFM Reform Strategy is critical to implement any public finance related SDG financing solution in Uzbekistan. It is critical to accelerate the inclusion of a medium-term perspective across key budget documents and processes. • Recent economic reforms have led to fluctuations in government revenue. The COVID-19 induced decline in government revenue in the immediate future poses a risk to policymakers. • To date, public investments, both on-budget and off-budget, represent the largest amount of development finance in Uzbekistan • Fiscal policy offers significant scope to widen Uzbekistan's fiscal space and to improve the overall development impact of public spending. • Important efficiency gains could be achieved by adopting international standards for public procurement and SDG-aligned public investment plans. • The marked increase of international public finance (concessional loans and other official flows) to Uzbekistan warrants adopting an effectively coordinated development cooperation strategy and innovative disbursement mechanisms to increase aid effectiveness.

Policies for Private Finance	• Domestic private investment has been growing as a source of development finance in Uzbekistan. It is projected to overtake domestic public finance flows in Uzbekistan soon. The extent in which this increasing private investment can be considered commercial investments versus state-led private investments through SOEs is hard to determine due to a lack of public data on SOEs. • For Uzbekistan to enjoy its demographic dividend and accelerate SDG achievements requires accelerating employment creation through a more coordinated approach to private sector development (improving the business environment, access to credit, financial markets, financial inclusion, etc.) • Underdeveloped banking and financial sector, combined with shallow and illiquid capital markets with high interest rates, undermine SME access to credit and channeling domestic saving towards financing domestic investments. • The GoU has prioritized improvement of Uzbekistan's economic situation through attraction of FDI and greater involvement of the private sector through privatization and private-public partnerships. • International private inflows, however, have been increasingly volatile and below expectations. Existing private finance policies to facilitate FDI seem to have been ineffective in sustainable increasing FDI inflows and in diversifying investments into priority non-resource related sectors. • Remittances are critical to Uzbekistan, due to their potential to support poverty reduction in recipient communities and as a source of foreign currency. Few recipients make use of formal means of saving remittances, due to the lack of dedicated remittance-backed products, low levels of development of and trust in the financial sector, and lack of financial literacy among recipients of remittances.
MECHANISMS FOR MONITORING, REVIEW AND ACCOUNTABILITY	
Monitoring for results	• Uzbekistan's weak data ecosystem constitutes an important constraint to strengthening the country's SDG financing architecture. It severely undermines monitoring the impact of different financing flows and policies as a basis for informed policy making, facilitating learning, adaptation of instruments and policies to enhance their impact, and mitigating risks. • The nationalization of the SDGs and their indicators could underpin a better coordinated and holistic development performance monitoring system in Uzbekistan. However, the preparations for the first VNR revealed significant capacity gaps that would need addressing for this performance monitoring system to effectively inform development planning and financing. • With the support of development partners, authorities are working on strengthening the effective identification and monitoring of all budgetary and extra-budgetary public finance flows in the country, which would significantly improve monitoring overall public spending. • Initial analysis points to possible imbalances in SDG financing: SDGs 5, 13, 14 and 17 are underrepresented in Uzbekistan's development planning system, while five SDGS (1, 3, 4, 6 and 11) absorbed 56.7 percent of total public expenditure. More in-depth analysis could assess the adequacy of current SDG alignment of development finance and linking public expenditure to specific development outcomes. • Significant knowledge gaps remain regarding assessing the SDG alignment of non-commercial private flows, actors and financing instruments.

Transparency and accountability	• Transparency and the public disclosure of information is becoming an increasingly important dimension of PFM system in Uzbekistan. The annual citizen budget provides an important and visible exponent of progress in making fiscal policy decisions tangible and understandable to the wide citizenship. • Strong advances in increasing transparency may in turn support more progress in strengthening accountability mechanisms. Slow progress in developing effective internal and external accountability mechanisms ultimately contribute to the low capacity of the national public administration system and undermine progress in strengthening the development impact of scarce development resources. • The DFA notes the criticality of ensuring transparency of revenues from the exploitation of natural resources and from the use of national and state property, their distribution and expenses.
GOVERNANCE AND COORDINATION MECHANISMS	
Institutional Mechanisms	• The newly reformed 'Ministry of Economic Development and Poverty Reduction' is tasked with coordinating the multiple, fast-paced economic reforms and ensuring unity of action and policy coherence across the government. It will also coordinate the development of all medium and long-term concepts, strategies and programs. There are no clear mechanisms for considering the financing approaches of new strategies and policies. • Uzbekistan has adopted a similar SDG implementation architecture as its regional peers: an official, Inter-ministerial Coordination Council, chaired by the Deputy Prime Minister, is responsible for monitoring and reporting on SDG progress and driving the necessary institutional reforms that may be required towards achieving the Agenda 2030. • In practice, streamlining the SDGs across the all planning and financing policies appears to be shallow, with limited ownership of the SDG agenda across Ministries. • The integrated nature of the sustainable development agenda could provide a ready-made solution to align and coordinate all national stakeholders, both private and public, around a consensual set of development priorities.
Coordination	• Effective models of genuine and systematic public-private dialogue remain under construction in Uzbekistan. While there is a clear policy intention to harness the potential of the private sector and civil society towards achieving the Agenda 2030, this would require a significant shift in attitude of civil servants to realize this potential in practice. • The VNR process has demonstrated authorities' capacity and willingness to identify and rally a wide range of stakeholders to monitor and inform SDG progress in Uzbekistan. • However, it has also revealed the limited capacity to effectively digest and utilize this wealth of information and knowledge to more systematically inform planning processes and SDG aligned financing policies. • Similar public-private dialogue mechanism could be systematically used for informing policymaking, along with capacity-building to ensure the outcome of such dialogues is being acted upon. The Strategy Development Center, which facilitated expert and public discussions on reforms outlined in the five-year development strategy, could be used to underpin more systematic public-private dialogues.

RECOMMENDATIONS

The recommendations focus on public finance, private finance and the enabling environment. Jointly, they aim to support financing the COVID-19 recovery in the short term, while strengthening the fundamental building blocks of an effective INFF over the medium-term.

RECOMMENDATIONS FOR PUBLIC FINANCE

Measures to increase available public resources

Adopt a Medium-Term Revenue Strategy.

While considering its mid-term comprehensive approach to secure a durable and resilient recovery from the COVID-19 crisis, the GoU will have to balance economic stimuli with paving the way for a medium-term fiscal consolidation. For this purpose, the GoU could consider developing a Medium-Term Revenue Strategy (MTRS) to complement its PFM Reform Strategy. Such MTRS can be supported by the Platform for Collaboration on Tax (PCT)[114]. A MTRS is a comprehensive approach to undertaking effective tax systems reform for boosting tax revenues over the medium-term through a country-led and whole-of-government approach. Such an approach places the tax system reform in the context of a government's overall medium-term expenditure needs for financing its recovery of the COVID-19 crisis in line with its long-term development goals. The political economy of the tax system reform requires that the process gets government support at the highest level — notably to pursue the necessary legislative reforms in Parliament.

Specific components of the MTRS can focus on strengthening basic, yet critical tax administration functions, in combination with addressing specific fiscal policy issues, including wasteful tax incentives, fiscal policies for health ("sin taxes") or environmental objectives (carbon taxes), tax evasion and avoidance.

Further strengthen the monitoring of tax incentives and exemptions

An important step towards rationalizing tax incentives would be to introduce tax expenditure reporting (a growing number of countries report estimates in their annual budgets now) and periodic cost-benefit analyses that assess how effective incentives are in mobilizing investments that contribute toward national SDGs. The latter could eventually evolve into a more formal mechanism for monitoring and managing tax incentives towards ensuring they represent value for money.

Ineffective tax incentives could be eliminated and increase government revenue, while the business case for effective, impactful incentives would be strengthened. Options for considerations include linking incentives to the size of investment, and better targeting to reduce investment costs, such as accelerated depreciation and investment tax credit, rather than outright tax exemptions.

To enhance investors' buy-in for revising tax incentives, freed-up resources could partially be earmarked e.g. SDG aligned infrastructure investments, technical education or health. to improve the environment for doing business. The IMF and UNDP can support the establishment of tax expenditure reporting.

[114] The PCT is a joint initiative of the IMF, OECD, UN and the World Bank.

Assess the current situation and capacity to better tackle illicit financial flows.

Slow progress on curbing corruption and the evidence of large illicit financial flows call for effective action to plug the leaks of Uzbekistan's SDG financing architecture to safeguard resources. There is currently little evidence or information available to inform an evidence-based approach. The JP's timely analytical review of the current situation, responses and existing capacity of the key national partners to address illicit financial flows and manage stolen/confiscated assets fills this knowledge gap. Visible and quick results on this politically sensitive action point can strengthen citizen's trust and tax morale, fostering stronger public support for other fiscal policy reforms.

Strengthen the financing of the National Health System

The UN is well-placed to identify and advise on fiscal policy measures which may have long-term beneficial impacts for reducing public health expenditure, such as new taxes to incentivize desired behavior on alcohol and tobacco[115]. Excise taxes on sugar and sweetened beverages may be a relevant health policy in Uzbekistan to contain future health expenditure from the rise of NCDs. Economic losses from NCDs, including direct and indirect costs, are estimated to be 4.7% of GDP in Uzbekistan. NCDs offer a strong case for acting now to lower future health expenditure. A set of low-cost interventions (e.g., aimed at reduction of salt, sugar and tobacco consumption) can have significant return on investment, as well as health and human capital outcomes

This would require a more in-depth analysis to explore options for establishing a health tax to mobilize new financial resources for specific spending objectives, such as increasing health expenditure or a specific health programme. This measure could be assessed as one of the possible financing solutions being implemented in the context of the JP's support to the Uzbek social health insurance fund. The JP focuses on the design and building of capacity to manage new financing models for health expenditure.

Measures that support a greener recovery & future development path

Analysis of COVID-19 recovery packages[116] shows the potential for strong alignment between the economy and the environment and a 'green route' out of the crisis as also being economically effective. Additional revenue from e.g. a carbon tax or reduced fossil fuel subsidies could be re-direct savings into more sustainable initiatives to build back better, with a strong focus on creating 'green jobs' in environment, climate mitigation and adaptation.

Clear communication around the use of these additional proceeds, e.g. increasing investment to modernize and 'green' Uzbekistan's energy infrastructure or sustaining social spending, may further increase support for the reforms. In the short term, clean energy infrastructure construction is particularly labor intensive, creating twice as many jobs per dollar as fossil fuel investments, as well as being less susceptible to off-shoring.

Address knowledge gaps with regards to total public and private climate finance in Uzbekistan, and its efficiencies, to support a greener recovery.

Undertake a systematic qualitative and quantitative analysis of Uzbekistan's public expenditures and how they relate to climate change, as well asexplore the value of establishing a climate budget tagging system to monitor and manage climate related expenditure

[115] The 2012 Philippines 'sin tax reform'-restructuring excise tax on alcohol and tobacco- ended a precipitous decline in the value of excise taxes on alcohol and tobacco caused by loopholes in previous legislation. Under the new law, revenues increased year-on-year by 85.6%, yielding fresh revenue of some 51 billion pesos (approximately, $1.18 billion) in 2013. Close to 80% of this figure is earmarked to health-care subsidies for the poorest Filipinos.

[116] Based on 700 stimulus policies and a global survey of 231 experts from 53 countries, including from finance ministries and central banks (Hepburn C., et al., 2020).

year-on-year. The institutional set-up for supervising climate finance and environmental protection has evolved significantly in recent years, resulting in unclear responsibilities, coordination and capacity for attracting sufficient green finance. Considering Uzbekistan's exposure to environmental risks addressing this data and information gap is critical to devise an evidence-based green recovery approach.

Adopt a carbon tax and reform fossil fuel subsidies to lower greenhouse gas emissions.

Uzbekistan currently has no carbon taxes, nor participates in any emissions trading scheme (ETS). At this stage, setting up an ETS may be administratively burdensome. Therefore, carbon taxes may be an appropriate policy option that would combine revenue generation while achieving Uzbekistan's emissions reduction target and limit the future adverse impact of climate change. To enhance the public acceptance of the new tax, the collected revenue, in turn, can be used for the benefit of the entire society through public spending. Public spending can target climate change in general through mitigation measures, such as reforestation programmes, or benefit specific vulnerable groups through adaptation measures, such as capacity building for small-scale farmers.

The design of the carbon tax, as well as estimating its revenue potential, would require more in-depth analysis. Such analysis can inform a multi-stakeholder dialogue process to address critical policy trade-offs related to the introduction of a carbon tax. At present, many industrial enterprises have not yet fully recovered from the pandemic a carbon tax risks increasing their production costs and decreasing their international competitiveness.

Phasing-out fossil fuel subsidies represents a triple-win situation. It would enhance energy security, reduce emissions of greenhouse gases and bring improved fiscal space for governments. The structurally low oil prices and the real depreciation of the UZS provide a window of opportunity to reduce inefficient fossil fuel subsidies. For Uzbekistan, the first step in reforming energy subsidies would consists of formulating an integrated reform strategy that would align energy prices to market and cost recovery levels to reduce budgetary costs gradually. This may be combined with appropriate incentives to reduce energy intensity and inefficiencies. In anticipation of strong social opposition to the phasing-out of fossil fuel subsidies, the GoU could consider reducing existing leaks from privileged segments of the population, all the while strengthening the focus on vulnerable social segments through better registry systems, and better targeted social safety nets, to compensate for the unintended side effects of higher tariffs. Increasing transparency around the extent of fossil fuel subsidies and related quasi-fiscal losses may shed light on the magnitude of the resources to be freed-up.

Strengthen resilience to the impact of climate risks.

A strategic, 'joined-up' approach to disaster risk reduction (DRR) and mainstreaming is an essential component of national development plans in hazard-prone countries. Mainstreaming DRR is a vast agenda, beyond the scope of this analysis. However, from a financing perspective it is worth noting the relevance of integrating DRR in current and future development plans. As a first step, this would require strengthening understanding and awareness of the need for disaster risk reduction and its mainstreaming into development, and greater accountability for disaster-related losses by establishing a solid, rigorous body of evidence on hazard mapping and physical exposure, on disaster losses, on the socio-economic impact of disasters at national and community levels, and on the scope for enhanced resilience. Subsequently, as part of establishing the national enabling environment for DRR, Uzbekistan might consider developing explicit disaster loss accounting, a disaster response financing strategy and establish dedicated funding lines for disaster risk reduction in state and local budgets.

Financing instruments to mitigate future climate related risks include weather or catastrophe insurance schemes.

Such schemes provide pay-outs to sovereigns or farmers when a major weather disaster strikes. Disaster risk insurance—if applied in tandem with other risk reduction measures—can offset the negative impacts of hazards, such as storms, floods and droughts, by supporting adaptation and increasing the risk resilience of vulnerable people. Forming disaster risk insurance schemes has costs. A careful cost-benefit analysis should be undertaken to determine the appropriateness of disaster risk insurance against direct investment in risk prevention. Such analysis would require involving national insurance industry experts in Uzbekistan to benefit from their detailed perspective in offering ways forward on these issues.

Consider using Strategic Environmental Assessments (SEA) to ensure that environmental and possibly other sustainability aspects are considered effectively in policy, plan and program making.

SEA provides a practical and direct means of progressing the SDGs on Environmental Sustainability. It refers to a range of analytical and participatory approaches that aim to integrate environmental considerations into policies, plans and programmes and evaluate the inter linkages with economic and social considerations. SEA can be described as a family of approaches which use a variety of tools, rather than a single, fixed and prescriptive approach. A good SEA is adapted and tailor-made to the context in which it is applied.

Measures to improve the efficiency of PFM

This DFA reveals that total available development finance is expected to stagnate as a share of GDP in the foreseeable future. Therefore, the short-term priority for financing the COVID-19 recovery focuses on improving the spending efficiency and development impact of currently available development finance, mostly public, but also increasingly private investment. Countries can save about as much through efficiency efforts in education, health care, and infrastructure as they could raise through tax reform (IMF, 2018). The ongoing PFM reforms are a timely opportunity for mainstreaming the SDGs principle of 'Leaving no one behind' across the Uzbek PFM system. This will, in turn, support related SDG financing solutions that depend on certain advancements in PFM.

The JP focuses explicitly on strengthening the GoU's asset management by developing standard processes and enhancing organizational structure to allow the Uzbek authorities to effectively deliver their functions on asset management; enhance the capacity of practitioners; and, develop a manual on asset management procedures and best practices.

In complement to the PFM Reform Strategy and the JP's ongoing activities, this DFA identifies the following areas of reform that can be considered for improving public spending efficiency and delivery:

- *Incentivize greater inter-ministerial coordination and cooperation: For example, allocation of funding for planning and activities can be made conditional on cooperation and joint implementation across several ministries.*
- *Mainstream SDGs across the Medium-Term Investment Policy Strategy to link the key performance indicators of the Public Investment Strategy with socio-economic development priorities of the country towards achieving positive structural changes in the economy of Uzbekistan. This could be extended to selection criteria for businesses accessing investment promotion measures.*
- *Improve the governance of SOEs (See list of policy options recommended by the World Bank in the section on SOEs).*

- *Introduce a more transparent system of intergovernmental fiscal transfers: Accelerating progress in the fiscal management of subnational governments is especially critical considering the COVID-19 pandemic. Progressing towards a predictable and needs-based allocation of intergovernmental transfers and equalization grants would enable a more equitable distribution of financial resources towards building back better.*
- *Integrate SDG considerations into the Supreme Audit Institution's strategic planning to assess and report on institutional capacities to operate effective, accountable and transparent institutions.*
- *Strengthen internal accountability systems through digitization and e-governance and improving public access to information and decision-making.*
- *Step up the fight against corruption by better enforcing the recently adopted provisions on the prevention of conflict of interest in the public administration.*
- *Measures to improve social protection and assistance*
- *Development partners identified the following reform priorities in social protection: assessing the needs of all categories of population; supporting the expansion of the existing social protection system, strengthening institutional coherence among social assistance, labor market and social insurance programs; revision of eligibility and delivery mechanisms to make them more responsive to current pandemic and future shocks; and, strengthening system capacity at the national and local levels to respond to the urgent and evolving needs of population over the medium and long term.*

Measures to increase aid effectiveness

Establish a government-led development partner coordination mechanism.

The steady increase of ODA loans and other official flows warrant adopting a more strategic approach to align these with the GoU's development priorities. The return of major IFIs, and the rise of non-traditional development partners, are diversifying concessional financing options. Without government leadership and coordination this will result in rising transaction costs and potentially lead to suboptimal outcomes such as duplication and inefficiencies.

The sheer magnitude of the donor-funded COVID-19 rescue package adds urgency to formulating a development partner strategy and coordination mechanism to ensure transparency and accountability of concessional finance, as well as provide leadership at both the strategic and sectoral levels to strengthen the coherence and impact of ODA management. This will also operationalize the aid information database, to allow effective tracking and transparency of aid flows; and ensuring targeted, coherent, well-coordinated use of the grants and loans are made available through ODA (and other official financial flows), to maximize leverage and impact in underfunded SDGs. Ideally, this strategy for concessional finance should include sectoral components based on the comparative advantages of the development partners. The DFA findings suggest the following areas: Climate finance/renewables, private sector development, and faith-based finance.

Consider pooling development partner support in a trust fund to untie aid and improve coordination.

Improving aid effectiveness would benefit from using more budget support modalities and effective donor coordination. Current public procurement and financial reporting practices don't meet international standards. Pooling development partner support in a Trust Fund could serve the purpose of better coordinating development partner support in a context of weak public finance management[117]. Such a Trust Fund could be administered by a leading IFI in the country. The Trust Fund may include a recurrent cost window for budget support and an investment window for financing development projects. Financing priorities could be agreed around specific themes: enhancing domestic revenue generation; improving public sector governance (the current PFM Reform Strategy); and enabling private sector development. For each theme, specific reform benchmarks could be agreed to trigger disbursements.

RECOMMENDATIONS FOR PRIVATE FINANCE

Measures to strengthen the domestic private sector

Address shortcomings in the SME finance policy framework and harmonize it with the COVID-19 SME support measures.

The magnitude and speed of institutional and regulatory reforms undertaken by the GoU in recent years call for a full revision of the existing SME finance policy framework to ensure its coherence and alignment with the new policy thrust of the government. Furthermore, the COVID-19 response includes SME support measures which would have to be harmonized within this revised SME finance policy framework. One recent in-depth review (Tadjibaeva, 2019) of SME development in Uzbekistan points to the following recommendations for improvement:

- Improve the effectiveness of government SME financing support through the restructuring and consolidation of subsidy programs in the government's development bank, and eliminate the interest rate subsidies for existing and sustainable enterprises;
- Build a ecosystem for SME finance, which includes venture capital companies, business angels, platforms for the emergence and communication of start-ups, incubation and acceleration platforms;
- Improve access to finance for SMEs through regulatory reform, including addressing cash-flow-based lending, collateral alternatives, lending in cash, and better use of credit histories (develop credit scoring). Providers should also be explicitly allowed to use such types of loan security as goods for sale and future harvest (currently, collectively used for less than 0.1% of all loans)—as these may be suitable options for many micro and SME finance borrowers;
- Support and strengthen the development of a sound legal environment and institutional for a more effective partial credit guarantee fund;
- Design and implement a SME financial literacy program to improve their capacity to secure financing;
- Partner with international finance institutions to design capacity building for commercial banks and microfinance institutions to serve the SME market efficiently;
- Fundamental institutional and legislative reforms, including liberalization of land ownership, reduction of governmental intervention in agricultural production and marketing processes;
- Optimize regulations to develop digital services for SMEs.

Boosting private sector investments in infrastructure

The private sector is well placed to contribute to development in areas that blend with private investment, such as infrastructure and clean energy. These investments deliver

[117] A successful example would be the Afghanistan Reconstruction Trust Fund (ARTF) which was established in 2002 as a coordinated international response to a firm request from the Afghan government for a single source of untied aid.

value for money, while limiting contingent fiscal risk, and can bring access to technological innovation, and increase delivery capacity. Addressing energy inefficiencies could accelerate the economy's competitiveness and modernize its agricultural sector. Quick fixes would entail regulatory reforms to address the low, state-controlled energy prices (UNEP, 2015).

The JP focuses on:

Diversifying available bonds to harness private investment for thematic priorities:

The successful sovereign bond issuance revealed a strong appetite from institutional investors to invest in Uzbekistan. While the COVID-19 crisis may have led to a temporary weariness of emerging market debt, the GoU may consider issuing bonds that cater for specific financing needs. This recommendation is being operationalized through the JP. It will develop a roadmap for adopting several innovative financing mechanisms, including:

- *Green bonds* with specific climate related or environmental objectives can finance Uzbekistan's Strategy for a green transition. "Green bonds" are instruments that tie the proceeds of a bond issue explicitly to environmentally-friendly investments. These may be relevant financing instruments for clean transportation, energy efficiency, sustainable energy investments, waste management and climate change adaptation. Uzbekistan is eyeing to issue its first set of green bonds packaged as *Sukuk bonds*, with support of the IsDB and the UNDP.
- Diaspora bonds (see below)

Mainstream the SDGs across the recently adopted PPP framework.

Considering their PPP setup is still very recent and in the process of fine-tuning, this is a timely opportunity to consider mainstreaming the SDGs more explicitly across all phases of PPP development: identification, preparation, transaction and management. This can be achieved by, for example, including SDGs in PPP communications and wider PPP capacity building programs; putting SDGs in project eligibility/selection /prioritization criteria; considering gender and inclusiveness in the composition of PPP institutions; and incorporating sustainability considerations into procurement processes (through project specifications and award criteria).

UNECE's People-first PPP concept[118] promotes such an SDG-aligned approach. They developed a set of Guiding Principles[119] to help governments implement the People-first PPP for the SDGs. A critical pillar of the People-first PPPs is its zero-tolerance for corruption. The OECD (2019) recommends strengthening the role played by civil society and non-governmental organizations in monitoring infrastructure projects and the transparent execution of their public procurement processes. Strengthening transparency and public scrutiny is essential to monitor whether PPPs deliver on their promise of value for money including the broader welfare benefits for society, such as the impact on poverty and sustainable development.

Adopt innovative financing instruments to crowd-in private investments into risky projects.

Innovative risk-sharing tools, such as credit guarantee schemes, can enhance access to finance to firms lacking collateral. Guarantees for development[120], particularly those issued by MDBs, can provide the assurance that investors need to back long-term infrastructure

[118] People-first PPPs can deliver a pipeline of projects that: i) Improve access and equity to infrastructure and public services ii) Are economically effective iii) Invest in resilience and climate change iv) Are replicable v) Ensure large stakeholder engagement (UNECE; 2018).

[119] https://www.unece.org/fileadmin/DAM/ceci/ppp/Standards/ECE_CECI_2019_05-ru.pdf

[120] Guarantees are a type of innovative financing instrument that protects governments, banks or investors from the risk of non-payment or loss of value of an investment.

investments and thus increase the chances of the project materializing. Using such guarantees could enable Uzbekistan access capital held by pension funds and insurers in the OECD and develop financial markets at the local level. For example, at a time of rapid urbanization where financing constraints create bottlenecks in public services and other urban infrastructure necessary for inclusive growth, guarantees can back municipal bonds and diversify the pool of assets for investors.

Measures to increase the SDG alignment of private investment

Review the SDG alignment and coherence of the BITs and free trade agreements.

UNCTAD's 'Investment Policy Framework for Sustainable Development' (IPFSD) may provide a practical roadmap for enhancing the systemic consistency Uzbekistan's BITs. Reviewing investment and trade agreements (global, regional or bilateral) are closely interconnected as they can mutually reinforce opportunities to integrate global value chains.

Mainstreaming 'sustainable' investment into the everyday work of its National Investment Promotion Agency.

The ongoing reforms in Uzbekistan's Investment Promotion Strategy provide an opportunity to consider mainstreaming 'sustainable' investment into the everyday work of its National Investment Promotion Agency (IPA)[121]. Unless environmental and social considerations are appropriately considered into the IPA's investment facilitation, more FDI could become a step backward rather than forward. This entails defining and identifying the 'sustainable' types of investment opportunities, according to an agreed set of sustainability criteria, to allow for targeted investment promotion activities. Relatedly, the GoU may consider evaluating the performance of its IPA not on the quantity of FDI attracted, but on its quality and nature. An excessive focus on the quantity of FDI may undermine the application of sustainability criteria to potential investors, which the IPA may perceive as a competitive disadvantage (Page, 2018).

Set up a UN Global Compact Local Network to advance responsible business practices.

Corporate sustainability starts with a company's value system, and a principles-based approach to doing business. Through a UN Global Compact Local Network, the GoU can advance the Global Compact Initiative and its Ten Principles[122] at the country level: these foster the business community to operate in ways that, at a minimum, meets fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption. This would help companies understand what responsible business means and facilitate outreach, learning, policy dialogue, collective action and partnerships to put their sustainability commitments into action. By incorporating the Ten Principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

The Principles can also support the GoU's commitments to business integrity and a zero tolerance on corruption across its efforts to harness SDG-aligned private sector investment.

Measures to tap into new sources of private finance

Establish or expand initiatives to leverage remittances and the diaspora.

Remittances are projected to remain the largest international source of development finance to Uzbekistan after the impact of the COVID-19 pandemic. Crowding-in only a

[121] Created in 2019, under the Ministry of Investments and Foreign Trade.

[122] The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

fraction of those remittances into development projects may represent a significant amount of additional financing available for SDG financing: sustained household spending supports progress mostly on the people's SDGs (SDGs 1 to 6), whereas channeling remittances into local development projects support the prosperity SDGs. Formulating tailored remittance policies may require additional in-depth analysis to better understand the current role of remittances in household spending.

An important aspect of any remittance strategy involves lowering the cost of receiving remittances. Reducing remittance costs to 3 percent by 2030 is a global target under Sustainable Development Goal (SDG) 10.7. Progress so far has been slow: the average cost of sending USD 200 to the ECA region declined modestly to 6.48 percent in the first quarter of 2020 from 6.67 percent a year earlier[123]. A hypothetical decline of remittance cost to the SDG target of 3 percent would unlock an estimated USD 280 million available to Uzbek households in 2021[124].

Based on other countries' experiences, several other innovative financing approaches could be assessed for their feasibility and desirability in the Uzbek context:

- The diaspora may be invited to participate in various economic (privatization, for instance) and cultural projects (preservation of cultural sites and artefacts), or more generally involved in national development.
- Diaspora micro-loans to rural areas or diaspora-business funding basic income-type programs. Such arrangements benefit post-socialist economies with reduced presence in the global capital markets and lacking significant FDI inflows by channeling remittances into microfinance or revolving funds for local development[125].
- Blending remittances with ODA or public budget funds as a sort of 'co-financing' to magnify their development impact[126]. IFAD's multi-donor Financing Facility for Remittances (FFR) could be a model to consider.
- Developing and strengthening the supply of bank and non-bank products for migrants. For example, developing classic linked bank accounts would promote access to banking services and financial inclusion in the countries of origin, and mobilize transferred savings.

Issuing diaspora bonds can be an innovative approach to 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 well-defined infrastructure projects and/or remedying the damage resulting from natural disasters. India and Israel are the best examples of countries that have engaged their large diaspora though diaspora bonds (box 5). 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 migrants and migrant workers, they may often be used to pay the government and other dues, with some discount. They could be issued in the Russian Federation as the main destination country

[123] https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history

[124] This rough estimate equals the difference between the current cost of sending remittances (6,48% * USD 8.1 billion) and the SDG target (3%*USD 8.1 billion).

[125] 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))

[126] Under the Mexican 'Tres por uno' scheme, for every dollar contributed by a Mexican migrant association in the US, the Federal, State and Local Government Areas in Mexico each matches it with an additional dollar, thus tripling up the funding made available by remittances for development projects back home.

BOX 5 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 play an important role. There is the 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: World Bank (2007), Development Finance via Diaspora Bonds.

of Uzbek emigrants, depending on the condition of the economic recovery of the Russian economy (see below).

Explore the potential of philanthropy to fund SDG targets related to human development.

International and domestic philanthropy is an untapped potential source of finance worth exploring more in-depth. Such analysis would have to identify the binding constraints and potential funding opportunities specific to Uzbekistan. Enabling international philanthropic organizations and foundations to operate in Uzbekistan will most likely involve addressing regulatory and legal limitations. Although philanthropic flows are only about 5 percent of official development assistance, they can have an important impact on key sectors, for instance in health care (OECD, 2018). Beyond funding, private philanthropic efforts can spur innovation in service delivery, and help build capacity in recipient countries together with other development partners. However, international philanthropy tends to focus more on upper middle-income countries.

Access untapped sources of faith-based finance: Zakat.

The national dialogue on the role of Islamic finance in financing SDGs provides an opportunity to support accelerating the SDG alignment of Islamic finance. Practical steps may include setting up a centralized database on *zakat*, including the legal registrations of religious endowment for the Government to establish as to how the resources are used, and that they are used in line with the endowment documents. The JP is conducting a situation analysis to develop a roadmap for harnessing innovative Islamic financing solutions in collaboration with the Ministry of Finance, Ministry of Economy and Industry, CBU and the Capital Market Development Agency.

STRENGTHENING THE ENABLING ENVIRONMENT

Beyond resources, developing political and civil society consensus, enhancing state capacity, and promoting good governance are needed to achieve the SDGs and build back a more inclusive and resilient society.

Addressing knowledge gaps

This DFA suggests that overcoming important knowledge gaps in establishing a holistic Financing Strategy are a critical building block of the COVID-19 recovery efforts and the INFF. This DFA intended to partly address these gaps by establishing a baseline for total available development finance in Uzbekistan, broken down into its main components and actors.

The DFA also takes stock of the financing needs for Uzbekistan to achieve the SDGs, its Action Strategy and financing its recovery from the COVID-19 crisis. It showed:

- a lack of strategic knowledge regarding the nature and scope of the financing requirements to achieve the national development vision and the SDGs; and,
- the absence of any systematic monitoring of development finance trends and projections in Uzbekistan. A major recommendation from this DFA is therefore to build the GoU's capacity to systematically undertake detailed and localized costings of their future strategies, policies and action plans.

Conduct costing assessment of the national development strategy and priority SDG targets.

Authorities may want to consider estimating the total financing requirements of achieving Uzbekistan's development vision of becoming a higher middle-income country by 2030. This would entail a detailed costing of the draft Concept 2030 and the draft PRS. It would allow contrasting the available identified financing with the magnitude and scope of required financing, as well as informing financing policies to incentivize certain financing flows and instruments towards specific financing needs.

High-level costing estimates are available for some areas of the SDGs in Uzbekistan, indicating that at least an annual additional USD 6 billion would be required. A more detailed and comprehensive costing exercise at the level of priority SDG targets may be required to make these estimates more practical for policymaking.

Practically, this may require initially undertaking mid/long-term costing exercises to inform the suggested process, or establishing cost estimates of specific sectoral and SDG priority interventions. This approach might also be relevant to discuss and consider the benefits of costing long-term development priorities and making these a standardized part of the policy development process.

Many countries[127] have undertaken similar costing estimates, or are in the process of doing so. South-south cooperation and peer learning can support building capacity and share best practices on how to integrate a systematic costing of financing needs in Uzbekistan's planning processes. The UNDP Finance Hub, as well as ESCAP, have specialized staff that can support the identification, and implementation, of costing methodologies best suited to Uzbekistan's national context.

The JP is planning to conduct several analyses over the next two years that will greatly complement this DFA. They include:

- Costing estimates for SDGs 1, 8, 10 and 12 to integrate them into the national development strategies;
- Public expenditure review of existing poverty reduction programmes to inform the financing strategy on poverty reduction;
- Fiscal space analysis for reform options to strengthen social assistance in Uzbekistan;
- Costing and cost-benefit analysis of reform options to strengthen social assistance; and,
- Undertaking public expenditure review of social assistance in Uzbekistan.

[127] Cambodia, Malaysia and Thailand have all developed estimates of the scale of financing needed to realize their medium-term (4–5 year) plans. These include varying degrees of detail on which to delineate responsibilities and objectives into targets and policies for different types of finance. Bangladesh and Nepal have undertaken exercises to estimate the cost of achieving the SDGs, looking at both public and private resources.

Monitor the contribution of public spending at the level of SDG targets.

Information on the contribution of public spending to respective SDGs is available only at the Goals' level and for the Republican Budget. A more systematic and detailed analysis of the contribution of public spending to the SDGs at the level of individual targets would uncover SDG financing gaps, allowing for more targeted financing policies. Considering the ongoing fiscal decentralization process, understanding how it would affect SDG financing requires information on the contribution of local budgets to SDG progress. This may be addressed by undertaking a rapid integrated assessment of national budgets, complementing the authorities' initial work already undertaken for mapping national plans with the SDGs.

Integrate the DFA into the annual budget process.

The MoF's macro-economic forecasting division could consider updating DFA analytical framework annually. Joining the different strands of Uzbekistan's available development finance into a coherent and up to date 'DFA dashboard' would cement the ongoing SDF financing dialogue in the country. It would support systematizing the authorities' holistic approach towards financing the SDGs beyond the public purse, and provide an ongoing link between public policies for private finance and national sustainable development objectives. In practice, this should not entail much additional analytical effort, but rather procedural reforms to ensure transparent, consensual and timely SDG financing information is made available to all the right interlocutors, and through the appropriate official channels.

This is an opportune moment to consider integrating this UIFF's first dimension into Uzbekistan's PFM system. The revamped PFM Reform Strategy and the transition towards adopting a MTEF and RBB provides the adequate policy momentum to integrate the DFA dashboard and its medium-term financing outlook into the budget process. A DFA dashboard would provide a practical link between the development Strategy's long-term resource needs with the medium-term financing trends and financing approach. In addition, a summarized version of the annually updated DFA could be part of the 'budget package' provided for approval to the Parliament, in the form of a 2-page strategic assessment of the development finance landscape. This would greatly inform decision-making, as well as the success of the Citizen Budget.

Adopting a DFA dashboard would also serve the purpose of strengthening the data ecosystem by building up statistical capacity and strengthening institutional coherence between the State Committee on Statistics, the MoF, the CBU and the MoE. The broad range of data that underpins the DFA analysis would have to be centralized, updated and provided by the Statistics Committee, relying on medium-term revenue and expenditure data from the MoF, CBU and other relevant domestic sources.

Capacity-building

Strengthen Uzbekistan's national statistical system and improve the GoU's capacity to effectively monitor SDG progress, the national action strategy as well as their financing.

Multiple international observers point to Uzbekistan's weak data ecosystem as undermining efforts towards more evidence-based policymaking. Understanding the financing landscape, and the progress being made in sustainable development, is a foundation for dialogue about the roles that different types of financing can play in achieving the SDGs. This requires sustained efforts to keep improving the quality and transparency of economic data, in line with the identified recommendations of the MAPS (2018) mission.

The DFA recommends that the Statistics Committee, the Ministry of Finance, the Ministry of Labor, and the CBU consider agreeing on a roadmap to implement the following concrete, immediate opportunities for strengthening Uzbekistan's data ecosystem in support of accelerating SDG financing:

- The soon to be finalized implementation of the program-based budgeting reform is an opportunity to automatically connect public spending to development outcomes by integrating the nationalized SDG indicators into the PBB's M&E framework. Having the SDG indicators linked with both the strategic planning and the state budget process would better align annual budgets to the national development plan. This would enable generating the necessary data to discuss the SDG alignment of the national budget.
- Plan for the 2022 population census to include survey questions that capture more granular information pertaining to SDG progress and specific SDG financing flows, such as Islamic finance practice, or household use of remittances.
- Adapt administrative systems to incorporate the tracking of public expenditure on cross-cutting issues such as gender equality or climate finance.
- Enhance efforts to build a policy culture that values the constructive use of evidence, starting with efforts to institutionalize monitoring and evaluation practices. Coordination between international partners for capacity building in this area—for both the GoU and civil society partners—is highly recommended.

Building capacity and raising awareness of Parliamentarians regarding the gender and environmental dimensions of SDG financing.

Meaningful gains in fiscal transparency can help underpin credibility and confidence in the management of public funds and enhance transparency, accountability, and public engagement. Building such capacity and accountability can catalyze the mobilization of diverse stakeholders, including the private sector and civil society, for financing the nationalized SDGs[128]. A critical first step would be to enhance the role of the Parliament, particularly its Budget Committee, in scrutinizing and assessing the SDG alignment of the annual budget, as well as financing policies and development programmes of the GoU and other relevant actors. This could be complemented with encouraging civil society, the media and public oversight institutions to work with open budgets and integrated priorities like gender-sensitive budgeting.

Strengthen existing public-private dialogue mechanisms

The DFA argues there is value in a more systematic and regular consultation of non-state actors to inform more SDG aligned budget allocations. It is important to ensure these consultations can feed into the budgeting process prior to budgetary approval by the Parliament. The DFA therefore recommends establishing a multi-stakeholder SDG platform, perhaps building on the existing process for the VNR or the draft Concept 2030 consultations. This would bring together representatives of all sectors to stimulate regular dialogue and functioning partnerships for progress across the SDGs.

Further the publicly available budget information can be enriched by including details of debt stock, financial assets, fiscal risks, medium-term fiscal forecasts and quantification of tax expenditures.

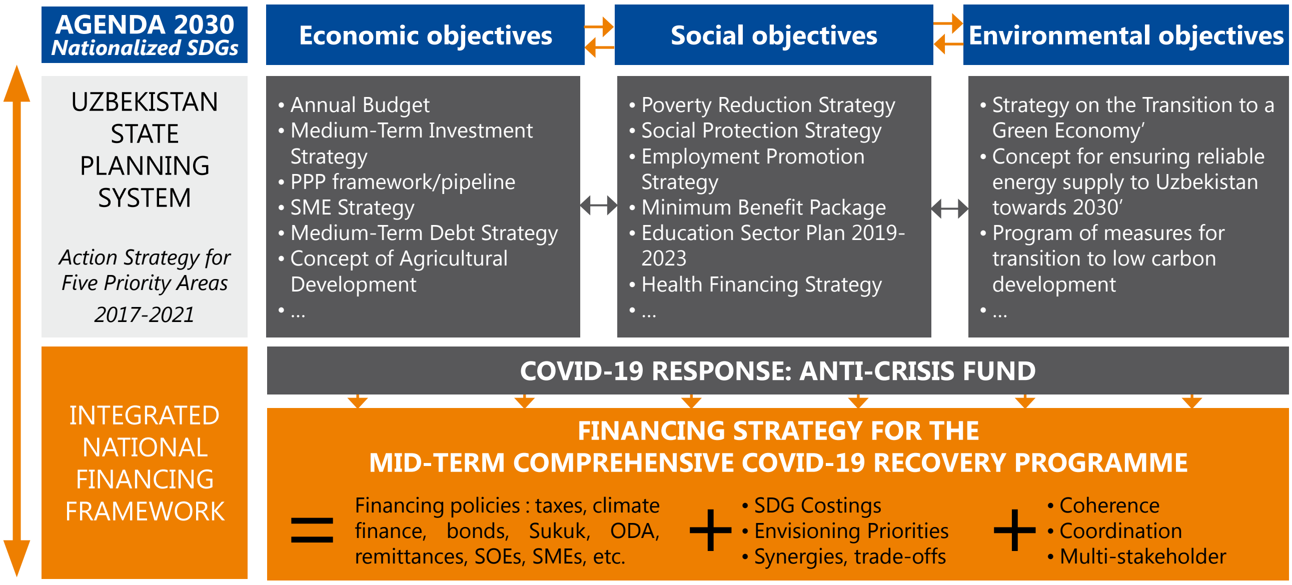
[128] Rajkumar and Swaroop (2008); Savoia and Sen (2015).

INFF ROADMAP TO SUPPORT FINANCING THE COVID-19 RECOVERY

Considering the cross-cutting nature of these multiple financing opportunities and challenges, this DFA recommends packaging them into a strategic approach for financing the transition from the current COVID-19 Anti-crisis package into a comprehensive mid-term recovery approach.

The INFF framework can foster such efforts through a sustained and coordinated, whole-of-government approach that includes key private sector and civil society representatives (see Figure 26).

Figure 26 An INNF can develop a mid-term comprehensive COVID-19 Recovery Programme



There is a real willingness in Uzbekistan for reform on financing. Many initiatives in this direction have already begun across a wide range of policy areas. An INFF would bring together Uzbekistan's multiple financing reforms, including the Anti-crisis measures, the draft Poverty Reduction Strategy and the Action Strategy into a coherent, overarching framework that helps the government prioritize the most strategic ways for financing building back better. It could also underpin efforts to improve the efficiency and coordination of financing policies by building stronger partnerships with all stakeholders involved in financing the SDGs in Uzbekistan, based on the SDGs' principle of shared responsibility.

Operationalizing the INFF roadmap

The INFF's effective operationalization will require prioritizing policy actions that carry the greatest likely impact and maintaining a flexible and adaptive approach that is responsive to both feedback and changing circumstances. This is an integral part of the consultation process with national stakeholders[129].

This DFA provides the contextual analysis for the main financing reforms to be implemented by the JP of the UN Joint SDG Fund. The JP aims to facilitate the establishment of an INFF with financial solutions to maximize the development impact of social[130] and environmental

[129] It involves identifying and agreeing institutional responsibilities, timelines, resources and specific steps to be taken for each of the priority recommendations.

[130] Focus on social assistance and health sectors.

policies/reforms. UN will support the GoU to: a) establish an INFF with its sector specific Financing Frameworks in healthcare and social assistance, b) optimize the existing public finance flows for maximum impact and outreach (public finance management and national asset recovery system) and, c) build effective architecture for mobilizing public and private resources (health financing solutions, social bonds/sukuk for environment-friendly projects, and crowdfunding.).

Going forward, the effective implementation of the INFF will require clear institutional ownership. In Uzbekistan, the 'DFA Oversight Committee' may consider transforming into the 'INFF Oversight committee'. Its new functions and responsibilities will have to be incorporated within its existing guiding documents. This INFF Oversight Committee would consist of representatives from all ministries responsible for financing policy areas covered by the financing strategy. The Ministry of Finance and the Ministry of Economic Development and Poverty Reduction would be tasked with the overall coordination of the work, along with the DFA's technical working group, responsible for providing expertise and policy advice. The INFF thus 'owns' the financing framework and guides the process to operationalize it. Alternatively, the INFF oversight could be embedded within the potential COVID-19 recovery program or using the JP's governance mechanism.

Lessons learned from other countries that have proceeded with establishing INFFs, indicate the critical capacities that the INFF Coordination Committee needs to have:

- having delegated authority and responsibility from the highest levels of government to lead the INFF process, along with leadership at a senior technical level to shape public and private finance policy and ensure national ownership of all financing plans.
- having the convening power to bring together actors from across government, the legislature, the private sector, civil society, development partners and other stakeholders to create ownership by all actors.
- be able to establish the tools, including a monitoring framework and secretariat capacity, to manage the financing framework.

Once established, the INFF Oversight Committee can build on the issues identified and recommendations developed through this DFA process, with further consultation to engender the buy in and collective ownership over the direction and reforms articulated in each area of financing policy. These consultations should determine the optimal path for implementing the UIFF and whether additional assessments and diagnostics need to be undertaken, prior to validating the INFF roadmap. It shall remain involved throughout the process, overseeing the rolling out of the INFF roadmap, the implementation of the INFF, as well as the monitoring and evaluation thereof.

The existing Inter-Agency SDG coordination Council shall fulfil the function of the central oversight body of the financing framework, tasked with technical roles in monitoring, substantive coordination and convening across government. This would serve the double purpose of benefitting from the Council's multi-stakeholder convening capacity and political backing at the highest level, as well building the Council's capacity and increasing its stake in implementing Uzbekistan's SDG roadmap.

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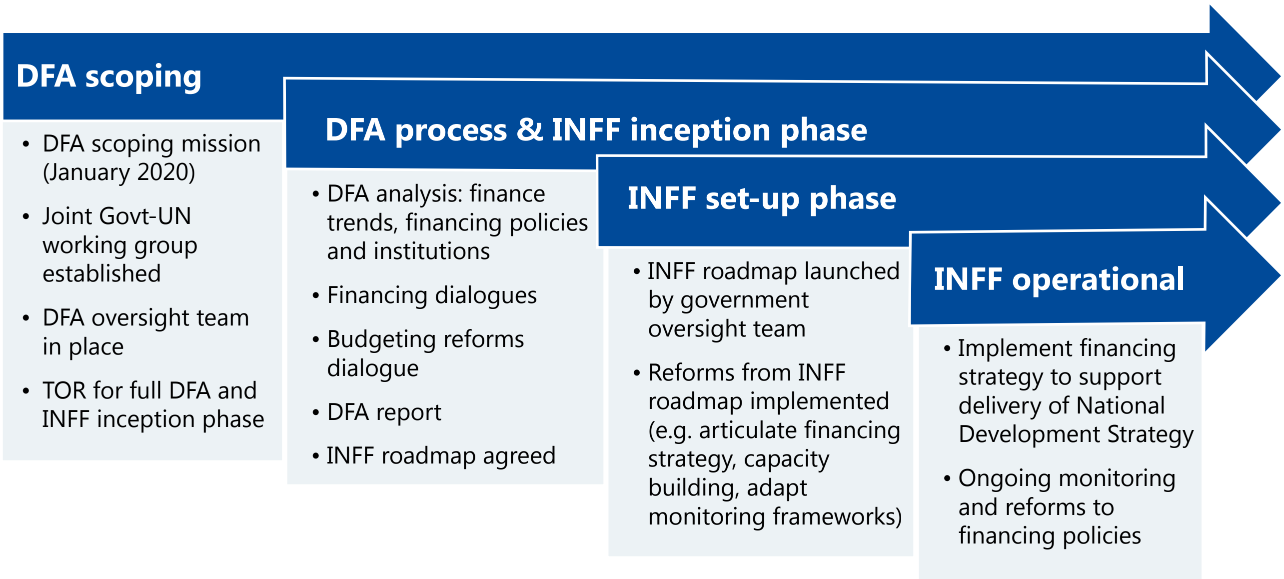
ANNEXES

1. DFA AND INFF PROCESS



2. DEVELOPMENT FINANCE FLOWS

USD millions, current

	2013	2014	2015	2016	2017	2018	2019 (e)	2020 (p)	2021 (p)	2022 (p)	2023 (p)	2024 (p)	2025 (p)	Source	Forecasts	Comments
Government revenue	20,920	22,264	22,564	22,513	14,735	14,443	16,604	15,300	17,107	19,249	21,498	23,951	26,613	IMF GFS until 2017	Author's calculations based on IMF Country Report No. 20/171 from 2018 onwards	
Tax revenues	14,564	15,611	16,613	16,352	8,986	8,773	11,091	11,279	12,849	14,575	16,410	18,413	20,601			
Non-tax revenues	2,652	2,481	1,847	2,007	1,441	2,024	2,686	1,630	1,791	1,961	2,132	2,323	2,527			
Funds (incl. Social Sec. Contr.)	3,704															
Domestic debt	..	..	..	..	5,809	2,180	1,337	-	121	-	-	-	-	IMF Country Report No. 20/171 from 2017 onwards		
Public	..	..	..	..	..	..	..	..	..	..	..	..	..			
Private	..	..	..	..	..	..	..	..	..	..	..	..	..			
Domestic commercial investment	12,958	14,793	15,440	15,075	12,514	10,736	17,011	11,744	14,623	17,831	21,501	25,823	28,683	WB's World Development Indicators (until 2018)	From 2019 onwards, author's calculations based on the average share of private GFCF in total GFCF in 2017-2018, combining the WB and IMF data series.	Proxied by Gross Fixed Capital Formation, private.
Official Development Assistance	334	373	506	577	700	632	692	1,450	200	767	853	950	1,062	OECD, Creditor Reporting System	Hypothesis that ODA grants maintain absolute USD value over the next 5 years; and ODA loans grow at the same compound average annual growth rate of the period 2012-2018 (13.9%). ODA loans for 2019-2021 based on IMF country report No.20/171.	ODA loans are also included in public external debt
Grants	116	130	117	148	146	156	150	150	150	150	150	150	150			
Loans	218	244	389	428	554	476	542	1,300	50	617	703	800	912			

	2013	2014	2015	2016	2017	2018	2019 (e)	2020 (p)	2021 (p)	2022 (p)	2023 (p)	2024 (p)	2025 (p)	Source	Forecasts	Comments
Other Official Flows	669	646	948	359	474	1,739	928	974	1,007	1,213	1,347	1,494	1,647	OECD, Creditor Reporting System	Hypothesis that OOFs remain stable as a share of GDP equal to the average value of the post-reform years (2016-2018).	
External debt	1,845	1,950	1,425	1,885	643	2,387	5,618	4,037	2,433	3,803	3,728	3,213	3,255	WB IDS (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Includes only long-term foreign debt. Public debt includes the IMF and WB COVID-Loans.
public	535	537	884	1,026	919	2,387	4,713	4,037	2,177	3,094	2,930	2,280	2,658			
private	1,311	1,413	541	859	85	-	905	-	256	709	798	933	597			
Foreign Direct Investments	635													WB IDS (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Total inflows
Portfolio Investments	-	-	-	2	3	13	1,346	26	1,928	32	35	39	543	WB IDS (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Total inflow, includes the USD 1 billion Sovereign Bond issuance
Remittances	7,561	6,566	3,939	3,784	4,897	5,115	8,700	5,800	8,100	8,700	9,500	10,000	10,500	CBU (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Total inward remittances

Percent of GDP

	2013	2014	2015	2016	2017	2018	2019 (e)	2020 (p)	2021 (p)	2022 (p)	2023 (p)	2024 (p)	2025 (p)	Source	Estimates and forecasts	Comments
Government revenue	30.0%	29.0%	27.6%	27.5%	24.9%	28.6%	28.6%	25.1%	25.4%	25.4%	25.5%	25.6%	25.8%	IMF GFS until 2017	Author's calculations based on IMF Country Report No. 20/171 from 2018 onwards	
Tax revenues	21.1%	20.4%	2.3%	20.0%	15.2%	17.4%	19.1%	18.5%	19.1%	19.2%	19.5%	19.7%	20.0%			
Non-tax revenues	3.8%	3.2%	2.3%	2.5%	2.4%	4.0%	4.6%	2.7%	2.7%	2.6%	2.5%	2.5%	2.5%			
Funds (incl. Social Sec. Contr.)	5.4%	5.4%	5.0%	5.1%	7.3%	7.2%	4.9%	3.9%	3.7%	3.6%	3.5%	3.4%	3.4%			
Domestic debt	..	..	..	..	9.8%	4.3%	2.3%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	IMF Country Report No. 20/171 from 2017 onwards		
Public	..	..	..	..	..	..	..	..	..	..	..	..	..			
Private	..	..	..	..	..	..	..	..	..	..	..	..	..			
Domestic commercial	18.8%	19.3%	18.9%	18.4%	21.2%	21.3%	29.3%	19.3%	21.7%	23.5%	25.5%	27.7%	27.9%	WB's World Development Indicators (until 2018)	From 2019 onwards, author's calculations using IMF projections for 2020-2025 (Art IV, 2020). For the first half of 2020 the value of gross investment decreased by 20% accordingto government data. From 2021 onwards a linear recovery towards the average share of private investment in GFCF (71% for 2017-2018) by 2025 has been applied.	Proxied by Gross Fixed Capital Formation, private.
Official Development Assistance	0.5%	0.5%	0.6%	0.7%	1.2%	1.3%	1.2%	2.4%	0.3%	1.0%	1.0%	1.0%	1.0%	OECD, Creditor Reporting System	Hypothesis that ODA grants maintain absolute USD value over the next 5 years; and ODA loans grow at the same compound average annual growth rate of the period 2012-2018 (13.9%). ODA loans for 2019-2021 based on IMF country report No.20/171.	ODA loans are also included in public external debt
Grants	0.2%	0.2%	0.1%	0.2%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%			
Loans	0.3%	0.3%	0.5%	0.5%	1.0%	0.9%	0.9%	2.1%	0.1%	0.8%	0.8%	0.9%	0.9%			

	2013	2014	2015	2016	2017	2018	2019 (e)	2020 (p)	2021 (p)	2022 (p)	2023 (p)	2024 (p)	2025 (p)	Source	Estimates and forecasts	Comments
Other Official Flows	1.0%	0.8%	1.2%	0.4%	0.8%	3.4%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	OECD, Creditor Reporting System	Hypothesis that OOFs remain stable as a share of GDP equal to the average value of the post-reform years (2016-2018).	
External debt	2.7%	2.5%	1.7%	2.3%	1.1%	4.7%	9.7%	6.6%	3.6%	5.0%	4.4%	3.4%	3.2%	WB IDS (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Includes only long-term foreign debt. Public debt includes the IMF and WB COVID-Loans.
public	0.8%	0.7%	1.1%	1.3%	1.6%	4.7%	8.1%	6.6%	3.2%	4.1%	3.5%	2.4%	2.6%			
private	1.9%	1.8%	0.7%	1.1%	0.1%	0.0%	1.6%	0.0%	0.4%	0.9%	0.9%	1.0%	0.6%			
Foreign Direct Investments	0.9%	1.0%	0.1%	1.4%	3.0%	1.2%	3.9%	1.2%	3.2%	3.0%	2.7%	2.6%	2.6%	WB IDS (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Total inflows
Portfolio Investments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		IMF Country Report No. 20/171 from 2019 onwards.	Total inflow, includes the USD 1 billion Sovereign Bond issuance
Remittances	11.0%	8.6%	4.8%	4.6%	8.4%	10.1%	15.0%	9.5%	12.0%	11.5%	11.3%	10.7%	10.2%	CBU (until 2018)	IMF Country Report No. 20/171 from 2019 onwards.	Total inward remittances

3. SUMMARY OF SDG FINANCING NEEDS AND OPPORTUNITIES

SDGs	Available public spending on SDGs (according to the 2019 citizen budget)		Annual required additional spending (2019 IMF estimates)		Annual required additional spending for Agriculture (Agricultural Strategy)	Required spending increases for the Education Strategy	Total annual additional financing needs	
	percent of total Budget	USD millions	percent of GDP	USD millions	USD millions	USD millions	USD millions	as a share of current SDG spending
1. Poverty	8.6	1,261					-	
2. Hunger	1.7	249			548		550	221%
3. Health	11	1,614	3.4	1,972			1,972	122%
4. Education	26.6	3,902				1,100	1,100	28%
5. Gender equality	0.5	73					-	
6. Water and sanitation	5.4	792	1.0	580			580	73%
7. Energy	0.02	3	0.8	464			464	15818%
8. Growth and Jobs	3.4	499					-	
9. Infrastructure and industrialization	3.8	557	2.4	1,392			1,392	250%
10. Inequality	0.1	15					-	
11. Cities	5.1	748					-	
12. Sustainable consumption and production	0	-					-	
13. Climate change	0.3	44					-	
14. Oceans	0	-					-	
15. Lands	0.2	29					-	
16. Peaceful and inclusive societies	2.1	308					-	
17. Partnership	2.8	411					-	
Total	**72%**	**10,506**	**7.6 %**	**4,408.7**	**548.0**	**1,100.0**	**6,058.7**	**57.6%**

Sources: Citizen Budget 2019; IMF (2019) Getting to selected SDGs: How much would it cost?; New Strategy for Agriculture; Education Strategy.

The above table situates the available public expenditure spent on each SDG (blue) in the context of estimated additional financing needs (orange). The costing estimates were established by the IMF, prior to the COVID-19 pandemic, complemented by available costings for agriculture and education, according to sectoral strategies. This illustration does not account for the likely SDG interlinkages such as “the gender-education-health nexus” and “the climate-land-energy-water nexus”. It also does not integrate potentially large efficiency gains from improving governance and public finance management over time. It serves to illustrate the value of having a clear understanding of where the largest financing gaps remain according to the GoU’s policy priorities for the Agenda 2030.

The table below matches the financing opportunities with the SDGs to which they are expected to contribute most, either by increasing available resources, or by improving the SDG alignment of existing resources. This can guide the prioritization of the SDG financing reforms that will be considered by the GoU.

	SDG Financing opportunities	**1. Poverty**	**2. Hunger**	**3. Health**	**4. Education**	**5. Gender equality**	**6. Water and sanitation**	**7. Energy**	**8. Growth and Jobs**	**9. Infrastructure and industrialization**	**10. Inequality**	**11. Cities**	**12. Sustainable consumption and production**	**13. Climate change**	**14. Oceans**	**15. Lands**	**16. Peaceful and inclusive societies**	**17. Partnership**
Public finance	Adopt a Medium-Term Revenue Strategy.			x	x	x	x	x	x	x	x							
	Streamline tax incentives and exemptions.	x	x	x	x	x	x		x	x		x						
	Build capacity to tackle illicit financial flows.																x	x
	Financing of the National Health System.			x		x					x							
	Increase public and private climate finance.						x						x	x				
	Carbon tax and reform fossil fuel subsidies.							x	x	x			x	x				
	Strengthen resilience to climate risks.	x	x			x								x				
	Weather or catastrophe insurance schemes.	x	x			x								x				
	Mainstream Strategic Environmental Assessments.													x				
	Inter-ministerial coordination.																x	
	Integrate SDG across the Medium-Term Investment Policy Strategy.						x	x		x		x	x					
	Improve SOE governance.						x	x	x	x			x					
	Predictable intergovernmental fiscal transfers.																x	
	Integrate SDG considerations into the Supreme Audit Institution's strategic activities.																x	
	Publically available budgetary data.																x	
	Enforce existing anti-corruption measures.																x	
	Strengthen development partner coordination.													x				x
	Sectoral trust fund to untie aid.													x				x

	SDG Financing opportunities	1. Poverty	2. Hunger	3. Health	4. Education	5. Gender equality	6. Water and sanitation	7. Energy	8. Growth and Jobs	9. Infrastructure and industrialization	10. Inequality	11. Cities	12. Sustainable consumption and production	13. Climate change	14. Oceans	15. Lands	16. Peaceful and inclusive societies	17. Partnership
Private finance	Harmonize the COVID-19 SME support measures.	x	x		x	x			x	x	x		x					x
	Green bonds and sukuk.							x		x			x	x		x		
	Mainstream SDGs across PPP framework.			x	x		x	x		x		x	x	x				
	Innovative risk-sharing tools			x	x		x	x		x		x	x	x				
	SDG aligned BITs and free trade agreements.			x	x		x	x		x		x	x	x				
	Integrate sustainable development criteria across the Investment promotion agency.	x						x	x	x			x	x				
	Set up a UN Global Compact Local Network					x			x				x				x	x
	Leverage remittances and the diaspora.	x	x	x	x	x	x	x	x	x	x							
	Explore the potential of philanthropy.	x	x	x	x													x
	Faith-based finance: Zakat.	x	x	x	x													
Enabling environment	Costing national development priorities.																x	
	Monitor the contribution of public spending at the level of SDG targets.																x	
	Link DFA with the annual budget process.																x	
	Strengthen national statistics for monitoring SDG progress and financing.																x	x
	Build capacity of Parliamentarians on SDG budgeting (gender and environment).	x				x								x			x	x