

SECTOR ASSESSMENT (SUMMARY): TRANSPORT (ROAD TRANSPORT [NON-URBAN])

A. Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. With a population of 34 million in 2020, Uzbekistan is Central Asia's most populous country, and the second largest land area and economy after Kazakhstan. The economy was growing at about 8% per year until 2015 from 2005 to 2015, but slowed to 6.1% in 2016, 4.5% in 2017, 5.4% in 2018, and 5.6% in 2019 because of lower commodity prices, a slowdown in its main export market (the Russian Federation), and foreign exchange reform. The outlook for 2020 and 2021 indicates a lower growth rate of 4.7% in 2020 because of the impact of the coronavirus disease (COVID-19), improving to 5.8% growth by 2021.¹ As a landlocked country, Uzbekistan's trade suffers from high transport costs. Continued investment in the transport sector is essential to support the country's economic growth. The principal modes of surface transport are road and rail transport. The market share of rail transport declined steadily from 1997 to 2018, from 90% of total freight traffic carried in 1997 to 80% in 2000 and an estimated 62% in 2018. The current share of road transport has increased to 38% for freight in terms of ton-kilometers (ton-km) and 96% for passengers in terms of passenger-km.²

a. Road Network

2. Considering the size of its population and territory, Uzbekistan has a relatively dense road network and an appropriate hierarchy of roads. Of the total 183,685 km of roads in the country, 42,676 km constitutes the core network, of which 98% are paved. The core network can be further grouped into (i) international (3,979 km), (ii) national (14,069 km), and (iii) regional (local) roads (24,606 km). Uzbekistan also has about 140,000 km of urban and rural roads, managed by municipalities and local districts. The more densely trafficked international and national roads in Uzbekistan tend to suffer from backlogs in periodic maintenance and rehabilitation, with an International Roughness Index sometimes exceeding 7 (reflecting roads in fair to poor condition).

b. International Trade

3. International trade plays a major role in Uzbekistan's economy, with exports as a percentage of gross domestic product at about 30% and imports at about 38%. Uzbekistan's major trading partners (with a share of more than 5%) include the People's Republic of China (PRC), the Russian Federation, Kazakhstan, Turkey, the Republic of Korea, and the European Union, which together constitute more than 60% of the trade. Uzbekistan also has many guest workers abroad, mainly in the Russian Federation. Uzbekistan's economy is diversifying rapidly, with high-value agricultural products (fruits and vegetables) in high demand in the Russian Federation and other European countries. Horticulture produce represents close to 20% of Uzbekistan's exports, and the Russian Federation is the destination for 80% of all horticultural exports from Uzbekistan. The growth in demand for horticulture products is expected to be higher than the average growth in exports. Since they are perishable products, well-functioning and smooth road transport is essential, underlining the importance of improving major trade corridors.

c. Sector Organization

¹ Asian Development Bank (ADB). 2020. *Asian Development Outlook 2020: What Drives Innovation in Asia?* Manila.

² State Committee of the Republic of Uzbekistan on Statistics. 2019. *Socio-Economic Situation of the Republic of Uzbekistan for January–December 2018*. Tashkent.

4. The government has reorganized transport sector institutions. Overall coordination of the transport sector is undertaken through legislative action by the Office of the President via executive orders and by the Cabinet of Ministers. The Ministry of Transport (MOT) was established to develop and implement a unified state policy for road, rail, air, river and urban transport; and carries out state regulation of transport and road agencies. A presidential resolution approved the organizational structure of the central office of the MOT, the sub structure of the central office of the Committee for Roads under the MOT,³ and the typical structure of the territorial departments of the Committee for Roads under the MOT. The main institution for road transport is the Committee for Roads under the MOT, which is engaged in the design, construction, and operation of roads. The Republican Road Fund under the Cabinet of Ministers was subsumed under the Committee for Roads from 1 January 2019.⁴ In December 2019 the Republican Road Fund was transformed to agency “Avtoyulinvest” and designated the body for the implementation of road transport investment projects involving funding from international financial institutions and foreign government financial organizations.⁵

d. Road Transport Financing

5. Road transport financing in Uzbekistan was through the Republican Road Fund (formed in 2003) until 2018, using the proceeds of turnover taxes and other revenues. The government also collects taxes from road users in the form of fuel taxes, although these proceeds are not earmarked for road works. The Republican Road Fund was divested of its road transport financing role in the reorganization and reform program under implementation. The Ministry of Finance now allocates road transport financing through the budget. The mandatory contribution of 3.2% levied on turnover (revenue) to state trust funds, including the Road Fund, was eliminated in the 2019 budget; and several tax changes have been introduced, as envisaged by the Tax Policy Improvement Concept approved by the presidential decree⁶ dated 29 June 2018.

6. Uzbekistan spends about 1.3% of its gross domestic product on road transport, which is reasonable at a global level.⁷ The expenditure and budget allocation for 2016–2020 is in Table 1. The expenditure for roads (in national currency) has more than doubled from 2016 to 2019 and is projected to increase by 17% in 2020. The substantial increase from 2016 to 2018 may be mostly because of the changes in the currency exchange rate regime during this period, from a controlled exchange rate to a market-based exchange rate. The country also experienced high inflation (14%–18%) during this period. The projected 15% increase in expenditure from 2018 to 2020 indicates a continued increase in the road transport allocation, taking into account the high inflation. Maintenance expenditure increased consistently (at a much higher rate than construction expenditure) during this period, in line with the ongoing effort to reduce the sizable backlog in deferred maintenance. Routine maintenance requirements, estimated at \$90 million per year for the core network, comprised about 30% of maintenance expenditure in 2019 and are well covered by current allocations.

³ Presidential Resolution No. 4143 on the Organization of Activities of the Ministry of Transport of the Republic of Uzbekistan, dated 01 January 2019.

⁴ [Presidential Resolution No. 4086](#) on the Forecast of the Main Macroeconomic Indicators and Parameters of the State Budget of the Republic of Uzbekistan for 2019 and Budget Guidelines for 2020–2021, dated 26 December 2018. The Republican Road Fund under the Ministry of Finance was reassigned to the Cabinet of Ministers by the Presidential Decree, dated 14 February 2017.

⁵ Presidential Resolution No. 4545 on Measures to Further Improve the Road Management System, dated 09 December, 2019

⁶ Presidential Decree 5468 on the Concept of Enhancement of Tax Policy of the Republic of Uzbekistan, dated 29 June 2018.

⁷ [Global Infrastructure Outlook](#), prepared by Oxford Economics for Global Infrastructure Hub, a G20 Initiative.

Table 1: Road Works Expenditure, 2016–2020⁸
(SUM billion)

Expenditure (Actual/Projected)	2016	2017	2018	2019	2020
Construction expenditure	1,097.9	698.5	808.1	1,827.4	2,097.6
Maintenance expenditure	1,196.6	1,523.5	2,816.2	2,664.0	3,052.6
Equipment and technology	51.8	125.6	567.4	250.0	400.0
Total	2,346.2	2,347.5	4,191.7	4,741.4	5,550.2

Note: Numbers may not sum precisely because of rounding.

Sources: Government of Uzbekistan, Committee for Roads, project implementation unit.

7. The average expenditure on maintenance of public roads is estimated to be about \$7,680 per km in the 2015–2019 plan period, up from about \$2,823 per km in the 2007–2012 plan period, indicating a significant increase in allocation. The projected maintenance estimate for 2019 and 2020 (considering the current exchange rate) averages \$8,160 per km, which indicates a continued increase in maintenance budget allocation.⁹

2. Government's Sector Strategy

8. The government's medium-term development goals are to foster economic growth by ensuring the sustainability of road transport and increasing the competitiveness of the economy. The national development strategy, 2017–2021¹⁰ includes the construction and reconstruction of road infrastructure—particularly the development of regional roads—to improve the competitiveness of the economy. The government has undertaken several road network development initiatives from 2017 to 2020, reflected in presidential decrees and cabinet resolutions.¹¹ These initiatives include (i) enhancing road infrastructure, improving the quality of roads, and creating the conditions for the safe movement of all road users; (ii) public–private partnership in the design, construction, reconstruction, and overhaul of public roads; (iii) public–private partnership on projects for the implementation of integrated traffic monitoring systems and intelligent video cameras; organizing paid parking spaces and paid parking lots; and the construction of roadside infrastructure, with the investor and/or business entity undertaking obligations to improve land along the highways; and (iv) constructing modern training autodromes¹² close to the registration and examination units of the road safety departments as

⁸ The 2019 and 2020 figures are forecasts.

⁹ The maintenance budget allocation is estimated at \$313.4 million in 2019 and \$359.1 million in 2020 at an exchange rate of \$1 = SUM8,500. This is equivalent to \$7,460 per kilometer (km) toward road maintenance in 2019 and \$8,550 per km toward road maintenance in 2020.

¹⁰ Government of Uzbekistan. 2019. *National Development Strategy of Uzbekistan*. Tashkent.

¹¹ [Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 990](#) on the Presidential Resolution No. 4035 on Measures to Introduce Advanced Foreign Methods of Organizing Work in the Construction Industry and Road Maintenance, dated 27 November 2018; <https://cis-legislation.com/document.fwx?rgn=98881>ures to further improve road safety control of traffic, dated 11 July 2017; and [Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 747](#) on the resolution of the Cabinet of Ministers of the Republic of Uzbekistan of May 19, 2018 "About measures for further enhancement of system of ensuring road safety of the Republic of Uzbekistan" the Cabinet of Ministers No. 377.

¹² [Presidential Resolution No. PP-3127](#) About measures for further enhancement of system of safety control of traffic, dated 11 July 2017; [Presidential Resolution No. 4035](#) on Measures to Introduce Advanced Foreign Methods of Organizing Work in the Construction Industry and Road Maintenance, dated 27 November 2018; [Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 990](#) About additional measures for implementation of the Concept of safety control of traffic in the Republic of Uzbekistan for 2018-2022, dated 05 December, 2018; [Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 747](#) About additional measures for increase in efficiency of fight against offenses in the field of traffic safety, dated 20 September 2018; Resolution of the Cabinet of Ministers

part of the road safety action strategy to improve driver training. The government is planning to develop a road sector development strategy up to 2030 to prioritize road investment, optimize road asset management, and develop public–private partnership in road transport.¹³

B. Major Development Partners: Strategic Foci and Key Activities

9. The Asian Development Bank (ADB) has been the lead agency in the transport sector in Uzbekistan since 1998. It has implemented many projects in road, rail, customs cooperation, and trade facilitation activities under the Central Asia Regional Economic Cooperation (CAREC) Program, of which Uzbekistan is a member. Other development partners include the Arab Coordination Group, the European Bank for Reconstruction and Development, the World Bank, Japan International Cooperation Agency, and the Government of the PRC. Road infrastructure development has largely been supported by ADB, Japan International Cooperation Agency, the World Bank, the Arab Coordination Group including the Saudi Fund for Development, the Kuwait Fund for Arab Economic Development, and the Islamic Development Bank.

10. Since 1996, ADB has supported Uzbekistan’s transport sector through lending and nonlending activities, including (i) technical assistance (TA) for preparing projects, either as stand-alone projects or as part of a multitranche financing facility; (ii) TA studies for policy reform in road transport; and (iii) loans to support road development projects. Other development partners have also approved and implemented TA and loan projects. A list of major road projects is in Table 2.

Table 2: Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Kashkadarya Regional Road Project	2017–2022	198.0
	Second CAREC Corridor 2 Road Investment Program (tranche 3)	2016–2021	150.0
	Second CAREC Corridor 2 Road Investment Program (tranche 2) ¹⁴	2012–2021	39.8
	Second CAREC Corridor 2 Road Investment Program (tranche 1)	2011–2019	129.5
	CAREC Corridor 2 Road Investment Program (tranche 3)	2012–2017	67.1
	CAREC Corridor 2 Road Investment Program (tranche 2)	2011–2017	183.6
	CAREC Corridor 2 Road Investment Program (tranche 1)	2010–2014	83.7
	CAREC Regional Road Project	2008–2013	59.9
ACG	Guzar–Chim–Kukdala Highway 4P87 Reconstruction Project	2011–2014	51.0
IsDB	Guzar–Chim–Kukdala Highway 4P87 Reconstruction Project	2013–2017	113.6
	Highway M39 Tashkent–Termez Reconstruction Project	2011–2014	167.2
JICA	Installation of X–Ray Scanning Equipment at the Checkpoints along the Uzbekistan Border	2010	8.2
	Procurement of Road Construction and Maintenance Equipment for Uzavtoyul	2004–2008	19.4
World Bank	Regional Roads Development Project	2015–2021	200.0

ACG = Arab Coordination Group, ADB = Asian Development Bank, CAREC = Central Asia Regional Cooperation, IsDB = Islamic Development Bank, JICA = Japan International Cooperation Agency.

Sources: Asian Development Bank; and Government of Uzbekistan, Ministry of Finance, Republican Road Fund.

of the Republic of Uzbekistan No. 377 About measures for further enhancement of system of ensuring road safety of the Republic of Uzbekistan dated 19 May, 2018.

¹³ [Presidential Decree No. UP-5890](#) on Measures of Deep Reforms of the Road Sector System of the Republic of Uzbekistan dated 09 December 2019.

¹⁴ At the request of the Government, the reconstruction of 75 km of the A373/4R112 highway (between Km0 and Km75) was cancelled under Tranche 2. The railway section “Angren-Pap” was constructed which envisaged transportation of goods and passengers to Fergana valley. As a result, the number of trucks carrying heavy and large goods and the number of passenger cars along the 4R-112 highway road section have decreased accordingly.

C. Institutional Arrangements and Processes for Development Coordination

11. At the regional level, ADB has led activities for CAREC, which serves as the development coordination mechanism for transport, customs, and trade facilitation in its member countries.¹⁵ Under the CAREC Program,¹⁶ member countries and development partners have worked together to complete road corridor investments, paying more attention to the sustainability of road infrastructure, road safety, and road asset management.¹⁷ Institutional and financial reforms in the road transport subsector will help improve road maintenance practices and enhance road asset life cycles.

12. In Uzbekistan, the government leads a transport sector development partner coordination group, where ADB has the lead role in the road and rail transport subsectors. ADB has used this mechanism to build good working relations with other development partners, and ADB's Uzbekistan Resident Mission has played a significant role in this regard. ADB has discussed the proposed project's physical and nonphysical components with these transport development partners to ensure harmonized efforts. The proposed project's key features are built on lessons learned from completed and ongoing projects, and are consistent with Uzbekistan's road transport subsector reforms.

13. The Interagency Council on Cooperation under the Cabinet of Ministers supervises the implementation of large and strategically important investment projects financed by international financial institutions and development partners. The Department of Loan Attraction and State Guaranteeing under the Ministry of Finance coordinates development assistance. The Ministry of Finance and the Ministry of Investments and Foreign Trade are also mandated to coordinate and monitor financial assistance from various development partners and the implementation of externally assisted projects.

D. ADB Experience and Assistance Program

14. ADB has been taking the lead in the development of road and rail infrastructure in Uzbekistan, with investments totaling \$1.3 billion, and the ongoing portfolio consists of five projects totaling \$767 million. Lessons learned from these projects suggest that (i) project designs should follow recognized international design and construction standards; (ii) a strong project management unit (PMU) is indispensable for successful implementation; (iii) the PMU should be aligned with the Committee for Roads's organization; (iv) the executing agency's lack of familiarity with ADB procedures and requirements at the outset, as well as the deficient PMU capacity caused by changes in the PMU team, low salaries, and unfilled vacant positions, have caused delays in submitting project reports; (v) lengthy government approvals of contracts awarded; the slow registration of approved contracts; and other lengthy internal processes such as the delayed approval of programs with new concepts in the government's road transport subsector (i.e., RAMS, and community and gender development programs)); and (vi) adequate capacity and professionalism within the PMU and former Republican Road Fund (RRF), as well as streamlined approval procedures within the government, should be developed for procurement and contract management.

¹⁵ The CAREC countries are Afghanistan, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, the PRC (Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region), Tajikistan, Turkmenistan, and Uzbekistan.

¹⁶ The CAREC development partners are Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP), World Bank

¹⁷ ADB. 2017. [CAREC 2030: Connecting the Region for Shared and Sustainable Development](#). Manila.

15. ADB has supported road transport reforms since 1998 when it became involved in the subsector in Uzbekistan.¹⁸ It has helped restructure the subsector into more functional and rational areas of competence and responsibilities. Reforms have included (i) sector unbundling, by separating road transport operation and road construction; (ii) separating the Republican Road Fund (RRF) from Uzavtoroad to make the Republican Road Fund (RRF) a quasi-independent organization under the assistance of a multitranche financing facility; and (iii) promoting competitive bidding for road construction works. Additional reform measures introduced in 2006 reorganized the construction concepts applied to primary highways, improved the legal and regulatory framework of road construction, and improved road safety and reliability.¹⁹

16. The Road Law, 2007 provides the broad basis for private sector participation in the financing and construction of highways, including toll roads. It also distinguishes road ownership and the responsibilities of road institutions, including district governments. In this regard, the committee of Roads and *khokimiyats* (districts) have assumed the status of a client in relation to contractors, enabling them to award and implement contracts, a role previously filled by Uzavtoyul. With ADB support, equipment operations and ownership were removed from Uzavtoyul and placed in the hands of a road equipment pool company to help create equal opportunities for the fledgling private contracting industry to participate.

17. Major sector reorganization is taking place as detailed in section 1 above. With the reorganization, road transport funding will be through budgetary allocation, and turnover taxes to fund extra-budgetary funds such as the Republican Road Fund have been canceled. With the reorganization, the PMU under the Committee for Roads is responsible for the implementation of all road projects funded by multilateral agencies.

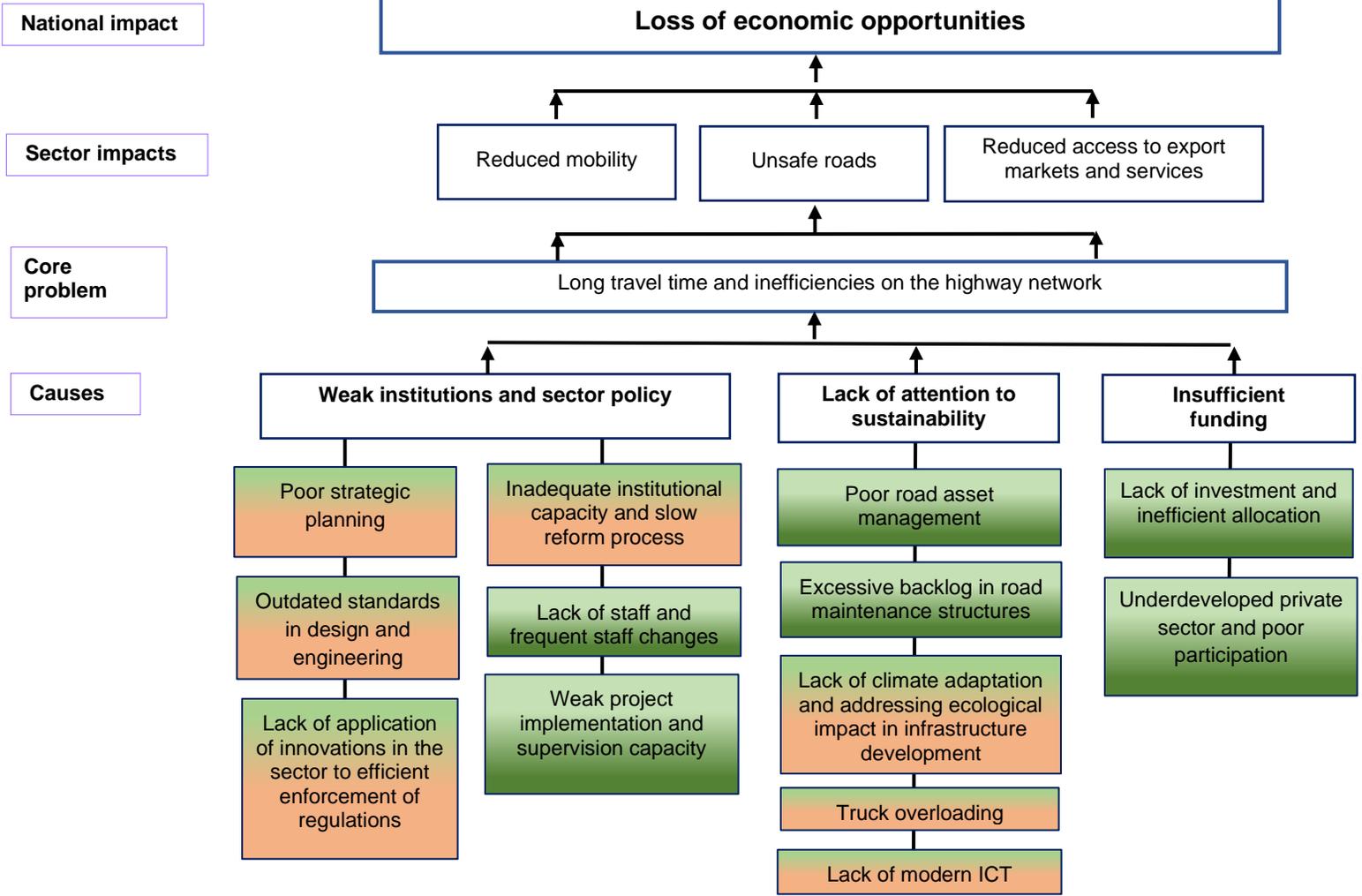
18. ADB is assisting the government through knowledge and support TA to address the reforms.²⁰ The TA will develop a road transport development strategy, and an action plan will be developed in consultation with all stakeholders. The TA will produce a road transport development strategy and a time-bound gender- and socially inclusive action plan to identify the priority reforms needed in the road transport subsector and guide the government in their implementation. The strategy will outline enhanced institutional arrangements in the road transport subsector, including the roles and responsibilities of government institutions and the private sector. It will also generate options for further development of subsector institutions. The TA will identify appropriate road maintenance strategies for Committee for Roads and identify modern road cross-sections with road infrastructure. It will include a methodology for prioritizing investments in road transport, and articulate additional financing options for private sector investments. The government will closely monitor the action plan using a monitoring framework containing key sex-disaggregated performance indicators.

¹⁸ ADB. 1998. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Road Rehabilitation Project](#). Manila.

¹⁹ [Resolution of the President of the Republic of Uzbekistan No. 535](#) about measures for development of highways public for 2007-2010.

²⁰ ADB. 2020. [Road Subsector Development Strategy and Action Plan](#) (TA 9987-UZB). Manila.

Problem Tree for Road Transport (Nonurban)



 Addressed through existing ADB projects and other development partner operations

 Addressed through this loan