SECTOR ASSESSMENT (SUMMARY): TRANSPORT (NONURBAN)

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. With a population of 31.8 million in 2016, Uzbekistan is Central Asia’s most populous country, and second largest land area and economy after Kazakhstan. The economy grew by 8% in 2015, its ninth consecutive year of expansion at 8% or higher.¹ As a landlocked country, Uzbekistan’s trade suffers from high transport costs. The principal modes of transport are roads and railways. The market share of the railways has declined steadily between 1997 and 2015, from 90% of total freight traffic carried in 1997, to 80% in 2000, and an estimated 61% in 2015; whereas the current share of road transport has increased to 39% for freight in terms of ton-kilometers (ton-km), and 78% for passengers in terms of passenger-km.

A. Road Network

2. In light of the size of its population and territory, Uzbekistan has a relatively dense road network and an appropriate hierarchy of roads. Of the total 185,000 km of roads in the country, 42,654 km constitutes the core network, of which 98% are paved. The core network can be grouped into (i) international (3,979 km), (ii) national (14,069 km), and (iii) regional (local) roads (24,606 km). There are also about 140,000 km of urban and rural roads, which are managed by city 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. Sector Organization

3. Overall coordination of the transport sector is undertaken through legislative action by the Office of the President through executive orders and by the Cabinet of Ministers. The main road institutions are the Republican Road Fund (RRF) and Uzavtoyul, a road construction and maintenance company, all operating quasi-independently under the Cabinet of Ministers.

4. The reorganized Joint Stock Company Uzavtoyul, the former Ministry of Auto Roads, is responsible for operating and maintaining the network of common use roads. Uzavtoyul partially owns these roads, which are included in Uzavtoyul’s asset register and balance sheets.

5. The separation of the RRF from Uzavtoyul and its integration into the Ministry of Finance in 2003 was a significant reform based on a presidential decree.² The RRF in its present form has been in existence since March 2006 and is responsible for road investment planning, project implementation, and financial management of road construction and maintenance.³ In this capacity, the RRF finances civil works related to common use roads and is responsible for allocating annual budgets to Uzavtoyul and its regional road construction companies. The RRF interacts with Uzavtoyul on issues of road construction projects, planning, and road maintenance financing. The RRF is supervised by the Road Board, which is chaired by the Minister of Finance. The Road Board is an inter-ministerial committee responsible for

³ The functions of the RRF are defined in several legislative acts and executive orders, including Decrees 299 and 499, and Article 6 of the Road Law of 2007.
formulating policies and monitoring the intended use of the RRF’s financial resources.⁴

6. The RRF acts as financier for all common use roads, and as client for major road works on international and national roads.⁵ Uzavtoyul remains the client for maintenance activities to the extent that they are outsourced in the form of performance-based contracts. The RRF currently has 64 staff members, predominantly skilled in finance and engineering. Its involvement in routine maintenance is limited to the review of the maintenance proposals prepared by Uzavtoyul before they are approved for consideration by the Ministry of Finance and the Cabinet of Ministers. The requested funding takes the form of an annual allocation, and the RRF’s role is limited to monitoring the use of funds.

B. Road Sector Planning

7. Road planning is medium-term involving a 5-year time horizon consistent with the Government of Uzbekistan’s medium-term financial planning. Five-year plans are anchored in legislation, which provides an effective mechanism to implement the plan.⁶ The plans are updated annually. For this purpose, an interministerial commission conducts regular visual surveys, usually in spring and autumn. Funds are allocated to priority projects and years based on revenue forecasts, and the survey results are screened for technical and financial soundness. Proposals that pass the screening are included in the investment program for final consideration by the Cabinet of Ministers.

8. The RRF and Uzavtoyul jointly plan and program road works and design studies for road projects. Plans must take into account other plans, such as those relating to land use. The RRF also determines the scope of the design studies and the terms of reference in consultation with the State Committee for Architecture and Construction and Uzavtoyul. For most projects, a department within the Cabinet of Ministers must approve the design studies.⁷ Overall, planning procedures appear cumbersome and do not always produce consistent results. A road asset management system is not yet functioning, although it is being established with financing from the Asian Development Bank (ADB) and the World Bank.

C. Road Financing

9. Uzbekistan currently spends about 1.3% of its gross domestic product on the road sector; this allocation has moderately increased between 2005 and 2015, but is low by international standards. Expenditures have grown nominally by an average of 25.6% per year since 2010. The RRF does not distinguish between routine and periodic maintenance. Even if it existed, such a distinction would be blurred by the ongoing effort to reduce the sizeable backlog in deferred maintenance, estimated at $1 billion per year.⁸ Recorded capital works in the form of reconstruction and rehabilitation would, therefore, cover a substantial share of the previously

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⁶ The current 5-year road plan is anchored in Resolution 1103, which provides for the contents of the plan in terms of engineering specifications and corresponding budgets.

⁷ The approving authority is the Head of the Utilities, Transport, Capital Construction and Construction Industries Department of the Cabinet of Ministers.

neglected maintenance. Routine maintenance requirements, estimated at $85 million per year for the core network, are well-covered by current allocations. This does not apply to periodic maintenance. Overall, there is an imbalance between road investments and maintenance allocations, and the underfunding of maintenance threatens the sustainability of the assets.

10. The RRF is financed from several sources in accordance with relevant legislation. These sources are diverse, especially the subgroups within the main category of turnover taxes. Total RRF income has increased approximately 22%, from $325 million in 2011 to a projected $897 in 2016. The proceeds from profit and turnover taxes are the most substantial source of income, averaging 84.4% of total income between 2010 and 2015. The government also collects taxes from road users in the form of fuel taxes; however, these proceeds are not earmarked for road works and do not constitute RRF income.

2. The Government’s Sector Strategy

11. The government’s medium-term development goals are to foster economic growth by ensuring the road sector’s sustainability and increasing the economy’s competitiveness. With regard to the transport sector, the government has adopted a 5-year development plan (2015–2019) aimed at modernizing the country’s road and transport infrastructure. This plan focuses on creating advanced road transport infrastructure, introducing modern information and communication technologies, and generating employment in the provinces. Specific projects under the 2015–2019 development program include (i) constructing and reconstructing selected sections of the national road network to international standards; (ii) ensuring the complete reconstruction of the Andijan–Kungrad–Beyneu, Samarkand–Termez, and Karshi–Shakhrisabz roads; and (iii) continuing to modernize local roads.

3. ADB Sector Experience and Assistance Program

12. ADB has been Uzbekistan’s lead development partner in the transport sector since 1998. From 2005 to 2015, ADB approved seven loans totaling $983 million for road projects, including five ongoing loans for the two ongoing multitranche financing facilities for the Central Asia Regional Economic Cooperation Corridor 2 Road Investment Programs. 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 RRF’s organization; and (iv) adequate capacity and professionalism within the PMU and RRF, as well as streamlined approval procedures within the government, should be developed for procurement and contract management.

13. ADB has supported road sector reforms since 1998 when it first became involved Uzbekistan’s road sector. ADB helped restructure the road sector into more functional and rational areas of competence and responsibilities. Reforms included (i) sector unbundling by separating road transport operation and road construction, (ii) separating the RRF from Uzavtoyul to make the RRF a quasi-independent organization under the assistance of the multitranche financing facility, and (iii) promoting competitive bidding for road construction works. A series of additional reform measures introduced in 2006 (i) reorganized construction concepts applied to primary highways, (ii) improved the legal and regulatory framework of road

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9 ADB. 1998. Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Road Rehabilitation Project. Manila.
construction, and (iii) improved road safety and reliability.\(^\text{10}\)

14. A Road Law enacted in 2007 provides a broad basis for private participation in the financing and construction of highways, including toll roads. It also distinguishes road ownership and responsibilities of road institutions, including district governments. In this regard, the RRF 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’s support, equipment operations and ownership were removed from Uzavtoyul and placed in the hands of a road equipment pool company. This will help create equal opportunities for the fledgling private contracting industry to participate.

15. More reorganization may be necessary, as the functions of the RRF and Uzavtoyul have not been effectively delineated. The RRF has assumed certain functions, including its new role as a road works client, that usually belong to a road authority and should have remained with Uzavtoyul. Neither Uzavtoyul nor the RRF is currently a full-fledged road authority, although both display some of its characteristics. While some of Uzavtoyul’s technical expertise migrated to the RRF when it was shifted to the Treasury, Uzavtoyul remains the most technically competent road agency. The dilution of its skill base combined with the creation of a parallel organization has caused friction and inefficiency. This is one of the reasons why a road asset management system has not yet been successfully introduced. It is also necessary to provide the RRF with a sustainable source of income that is isolated from the fiscal system, thus enabling the RRF to become fully independent.

16. The road design standards still in use in Uzbekistan originated from the standards that prevailed under the former Soviet Union, and have not been adjusted to reflect economic criteria such as traffic volumes and loads. These standards led to the overdesigning of roads, such as unnecessary excessive carriageway width and pavement thickness. These standards had to fit a single road network governed by the same set of administrative rules, regulations, and technical standards. Excessive provisions for geometric designs resulted in unnecessarily high construction and maintenance costs. Moreover, these standards were created for force account operations to ensure the efficient utilization of state-owned resources. If applied in a market environment, these standards stifle the initiative of contractors to use their own resources and productivity-enhancing technologies. These obsolete standards should be revised to be consistent with international best practices, and the staff of Uzavtoyul and the national design institute should be trained accordingly. New road design and construction standards should be developed taking into account a market environment, existing local conditions and practices, and institutional and staff capabilities.

17. The problem tree presents issues and constraints of the road transport sector in a plausible cause–effect relationship. The identified root cause is Uzbekistan’s sluggish reform process, which yields inefficiencies in project planning, design, and management; high transport costs; unsustainable assets; and the loss of economic opportunities and welfare.

Problem Tree

NATIONAL IMPACTS

Loss of economic opportunities and reduced welfare

SECTOR IMPACTS

Loss of competitiveness due to high trade and logistics costs
Reduced levels of economic activity
Unsustainable road assets
Reduced mobility and access to services

CORE SECTOR

Slow adoption of modern principles for project design and management, and weak sector governance

MAIN CAUSES

Decision processes that lack interaction between the service providers and stakeholders
Weak institutions and sector policies
Corruption and lax enforcement of rules and standards

DEFFICIENT SECTOR OUTPUT

Poor quality and high costs of transport infrastructure
Blurred delineation between government and private sector functions
Poor project planning and engineering
Inefficient standards
Traffic hazards

Intervention of the subject project