

SECTOR ASSESSMENT (SUMMARY): MULTISECTOR

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Since 2017, Uzbekistan has undertaken structural reforms to accelerate its transition from a state-dominated economic model to a market-based economy. While the first generation of reforms introduced fundamental elements of a modern macroeconomic and public sector management framework for a market-based economy, to help Uzbekistan achieve a more stable, sustainable, and inclusive private-sector-driven economic model, the developmental constraints outlined in paras. 2–9 need to be addressed.

2. **Fragmented public investment management.** According to the International Monetary Fund (IMF) Public Investment Management Assessment in 2021,¹ the public investment system is fragmented across agencies and there is a lack of coherent data on its size and composition, including off-budget spending.² Separate processes for investment planning and budgeting have undermined links to long-term sector strategies and proper planning of expenditures, including contingent liabilities. Streamlined standards for project appraisals; project risk assessment, including for climate change; and post-project performance evaluation are missing, and the public resource allocation has been inefficient and not well-targeted.

3. **Weaknesses in performance-based budgeting.** The 2018 Public Expenditure and Financial Accountability (PEFA) assessment found weaknesses in multiyear fiscal planning.³ While the medium-term budget framework with 3-year fiscal projections has been implemented since 2019, performance monitoring and gender-responsive budgeting have been inadequate. The 2019–2022 Citizens Budgets allocated 0.3%–0.5% of the budget spending, covering only 66.7% of gender-related targets under the Sustainable Development Goals (SDGs).⁴ Although Uzbekistan is prone to climate change and its production processes are resource intensive and energy inefficient, until recently there was no green economy framework and green budgeting.⁵

4. **Inefficient domestic resource mobilization.** Although tax revenues are projected to reach 20.2% of gross domestic product (GDP) in 2022 from 17.4% in 2018, the tax base can expand further given the large informal sector (estimated at 45% of GDP) and tax incentives and exemptions (accounting for one-third of budgetary revenues). The share of direct taxes (7.8% of GDP) and property taxes (0.8% of GDP), critical for progressive income distribution, is lower than the indirect taxes such as value-added tax (VAT) and excise (10.3% of GDP in 2020). The VAT compliance gap is 45% of the total revenue potential. Tax collection is also inefficient, with 181 hours per annum spent by citizens on tax payments.⁶

5. **Fragmented social protection.** The social protection system, comprising social insurance, social assistance, social care services, pensions, and labor market interventions, lacks

¹ IMF. 2021. *Public Investment Management Assessment. Technical Report. February*. Washington, DC.

² Public investment is about 5% of GDP. In 2019, 54% of public investment was financed by foreign loans with government guarantees, 10% by the state budget, 18% by state targeted funds, and 18% by the Uzbekistan Fund for Reconstruction and Development (UFRD).

³ PEFA Secretariat. 2019. [Uzbekistan: 2018 Public Expenditure and Financial Accountability \(PEFA\) Performance Assessment Report](#). Washington, DC.

⁴ United Nations Development Programme. 2021. [Development Finance Assessment for the Republic of Uzbekistan](#).

⁵ According to the 2019–2022 Citizens Budgets, only 0.3% of the budget was spent on climate change, covering 50% of the relevant SDG targets. MOF. 2021. *Newsletter No. 27*. Tashkent (November).

⁶ Uzbekistan ranked 69th out of 190 countries in paying taxes in the [World Bank's 2020 Ease of Doing Business Index](#).

an integrated approach because of fragmentation across the Ministry of Finance (MOF), Ministry of Employment and Labor Relations, Ministry of Health, and Ministry of Education.⁷ Assistance for low-income households is implemented through *mahallas* (communities) but data collection, selection of beneficiaries, and monitoring and evaluation need to be systematized. There is only one state pension fund (off-budget pay-as-you-go system) operated by the MOF, which provides social insurance to individuals meeting minimum employment criteria and social assistance for old-age citizens. Individual pension account contributions (which are voluntary) are placed in joint stock company (JSC) Xalq Bank (accounting for about 30% of the bank's liabilities), and are not effectively invested. The pension system is heavily subsidized from the state budget and is not self-sufficient to support Uzbekistan's needs during its transition to a market economy.⁸

6. State-dominated economy. The state-owned enterprises (SOEs) accounted for nearly 40% of GDP in 2020. They have dominated sectors such as utilities, energy, mining, telecommunications, and transportation, and until recently operated as monopolies, combining regulatory, operational, and social protection functions.⁹ The SOEs have enjoyed (i) preferential treatment in market access, (ii) government guarantees, (iii) tax and customs benefits, (iv) low input prices, and (v) concessional or directed loans through state-owned banks (SOBs) and/or the Uzbekistan Fund for Reconstruction and Development (UFRD).¹⁰ The SOEs lack robust corporate governance, accountability, and performance monitoring mechanisms, which are not fully compliant with Organisation for Economic Co-operation and Development (OECD) principles.¹¹ Uzbekistan's banking sector is dominated by SOBs (13 out of 32 commercial banks), accounting for 85% of banking sector's capital and assets. Until 2019, concessional credit to SOEs at below-market rates represented over half of the total bank loan portfolio and was a disincentive for commercial financing for the private sector. The SOBs provided subsidized lending for government programs on agriculture, housing, and entrepreneurship.

7. Lack of transparency in state-owned enterprise debt and finances. Although Uzbekistan has low risk of debt distress because of strong foreign exchange reserves and a moderate level of external debt, comprising mainly concessional loans, the total public and publicly guaranteed debt, including government guarantees for SOEs, is projected to increase from 29.3% of GDP in 2019 to 44.2% of GDP in 2022.¹² Government guarantees on SOE borrowings,¹³ contingent liabilities on SOE debt, and quasi-fiscal activities (budgetary subsidies, bailouts of operational losses, directed lending to SOEs from extrabudgetary funds and SOBs)

⁷ The social protection system accounted for 6.8% of GDP in 2020 and supports 55.0% of the population, mostly through social insurance (44.0% of population). One-third of poor people receive social assistance. The informal sector is excluded. World Bank. 2020. [An Assessment of the Social Protection System in Uzbekistan based on the Core Diagnostic Instrument](#). Tashkent.

⁸ The MOF decides how pension funds are invested by JSC Xalq Bank (mainly in 6-month deposits and/or credit to public programs). The pension deposits were impacted by high inflation after the 2017 devaluation. The MOF allowed JSC Xalq Bank to use 65% of pension deposits to fund commercial loans, exposing it to banking risks. The pension fund revenues declined when social insurance taxes were reduced. According to Citizens Budget 2021, subsidies to the pension fund were SUM14.70 trillion in 2021, up from SUM9.11 trillion in 2020.

⁹ There were 2,965 SOEs in 2020 accounting for 36% of budget revenues, 13% of employment, and 20% of exports. In 2019, 57% of SOEs made a profit, 9% had losses, and 34% were at the liquidation stage or not operational.

¹⁰ IMF. 2021. [State-Owned Enterprises in Middle East, North Africa, and Central Asia: Size, Costs, and Challenges](#). DP/2021/019. Washington, DC.

¹¹ ADB's 2020–2021 diagnostic studies on corporate governance in several SOEs found weaknesses related to (i) independence of supervisory boards, (ii) competitive selection of executives, (iii) compliance with the International Financial Reporting Standards and international auditing standards, and (iv) risk management framework.

¹² The total external debt (public and private debt, including publicly guaranteed debt) is projected to increase from 43.0% of GDP in 2019 to 63.8% of GDP in 2022. IMF. 2021. [Republic of Uzbekistan: 2021 Article IV Consultation—Press Release and Staff Report](#). IMF Country Report No. 21/85. Washington, DC.

¹³ As of mid-2018, 300 guarantees totaling SUM2.5 billion were provided to SOEs for external borrowing. IMF. 2019. [Republic of Uzbekistan Strengthening Fiscal Transparency](#). IMF Country Report No. 19/118. Washington, DC.

increased fiscal risks.¹⁴ Uzbekistan’s fiscal framework lacks a comprehensive database on SOE finances, including full disclosure of quasi-fiscal activities and contingent liabilities.

8. **Ineffective public utilities.** Ineffective public utilities in Uzbekistan have an adverse impact on the state budget and service quality.¹⁵ In particular, the water and sanitation sector suffers from deteriorated infrastructure, poor operation and maintenance, an outdated sector strategy and planning, inappropriate standards, limited financial resources, and weak institutional capacity, resulting in high water losses and low service quality.¹⁶ The state-owned water utility company, JSC Uzsvtaminot, has provided services at tariff rates that are below cost recovery, leading to short-term borrowing and/or dependency on government subsidies and direct financial support to cover operating losses.¹⁷ According to the World Bank, revenue losses from lower billing and collection rates and partial metering amounted to 0.2% of GDP in 2018 (footnote 15). JSC Uzsvtovminat has weaknesses in financial and operational performance monitoring, asset and debt registry, accounting, and internal audit.

9. **Weaknesses in public sector accountability.** According to the Worldwide Governance Indicators, in 2020, Uzbekistan ranked 138th among 209 countries in government effectiveness, 177th in regulatory quality, 181st in rule of law, 194th in voice and accountability, and 176th in control of corruption.¹⁸ On control over public expenditures, the PEFA assessment (footnote 3) found weaknesses in internal and external audit systems and legislative scrutiny of audit reports.

2. Government’s Sector Strategy

10. **Multiyear public investment management.** Since 2020, a 3-year investment planning framework was introduced.¹⁹ In 2022, the Budget Code was amended to incorporate 18 state targeted funds along with the UFRD, nearly 40 extrabudgetary funds and 27,000 off-budget accounts of budgetary organizations into the budget with increased parliamentary oversight.²⁰ New regulations for project selection and prioritization following the debt ceilings were formulated.

11. **Gender-responsive program-based budgeting.** In 2020, the government approved the Strategy for Improvement of the Public Finance Management System, 2020–2024, which includes a “results or performance-based budget” system. Along with the medium-term budget framework, the 2022 budget will be based on target performance indicators, including alignment with SDGs. The gender-responsive budgeting will help address gender-based issues and inequalities.²¹

¹⁴ While on-budget subsidies to SOEs were modest at 1% GDP, quasi-fiscal support to SOEs was estimated at 6% of GDP in 2018 and directed policy lending to SOEs at 4% of GDP. The quasi-fiscal subsidy associated with concessional lending to SOEs is estimated at 2% of GDP. World Bank. 2021. [Accelerating Uzbekistan’s Transition Development Policy Operation](#). Report No: PGD312. Washington, DC.

¹⁵ The quasi-fiscal activities of SOEs in natural gas, electricity, drinking water, and district heating were 6% of GDP in 2018. World Bank. 2020. [Uzbekistan Public Expenditure Review](#). Washington, DC.

¹⁶ Urban water supply coverage is high (70%–96%), but more than 30% of households lack quality drinking water.

¹⁷ The JSC Uzsvtaminot oversees 17 provincial water utilities and manages the nationwide water and sanitation sector assets, estimated at more than \$0.9 billion. 10 out of 17 provincial water utilities have losses in the range of \$0.49 million–\$9.18 million based on 2019 and 2020 audited reports. The government allocated subsidies totaling \$9.8 million for operation and maintenance expenses in 2020.

¹⁸ World Bank. 2020. [Worldwide Governance Indicators](#). Washington, DC.

¹⁹ National budget accounting is being revised in line with the International Public Sector Accounting Standards.

²⁰ The UFRD provided government-guaranteed loans and equity investments to SOEs and SOBs. Extrabudgetary funds accounted for 27% of the consolidated government spending in 2018.

²¹ In 2017, Uzbekistan was ranked 59th out of 189 countries in the gender inequality index (0.274) based on reproductive health, empowerment, labor force participation and entrepreneurship. During the coronavirus disease pandemic, women and low-income households faced impoverishment due to job losses.

12. **Commitment to a green economy.** The government approved the Strategy for Transition to a Green Economy for 2019–2030. To reflect the new commitments under the updated nationally determined contribution for implementation of the Paris Agreement, approved in December 2021,²² the Ministry of Economic Development and Poverty Reduction as the designated authority is developing an action plan for implementation. With support from development partners, the MOF is developing a green budgeting methodology and SDG-based budget classifications, particularly for resource-intensive sectors.²³

13. **Modernization of tax administration.** The government has accelerated tax reforms since 2019, such as (i) unifying the tax rate (at 12%) for personal income tax, corporate income tax, and payroll tax; (ii) expanding the value-added tax; and (iii) reducing tax exemptions. The MOF is developing a medium-term revenue strategy, supported by the IMF. The State Tax Committee plans to modernize tax administration with digitalization of tax filing; information technology (IT)-based tax audit, compliance, and risk management; and key performance indicators.

14. **Consolidated social protection system.** The Ministry of Economic Development and Poverty Reduction is developing a national poverty reduction strategy and a national social protection strategy for 2022–2030. A nationwide electronic registry was piloted in 2020²⁴ for delivery of social assistance to low-income households during the pandemic.²⁵ A comprehensive Social Protection Single Registry needs to be expanded for all other social assistance programs, and the pension system needs reform to improve coverage and sustainability.²⁶

15. **Transformation of state-owned enterprises and state-owned banks.** Since 2019, the government has established the State Assets Management Agency to accelerate transformation of SOEs and improve corporate governance in line with OECD principles. The Anti-Monopoly Committee was set up to streamline the legal framework to break monopolies and promote competition and nondiscriminatory market access.²⁷ Vertically integrated SOEs such as JSC Uzbekenergo (power sector), Uzbekistan Airways (airline and airports), and Uzbekneftegaz (oil and gas sector) were unbundled to start dismantling major monopolies. Large SOEs conduct inventories of assets to improve transparency of finances, sell noncore assets, and implement debt management strategies. The government approved a medium-term debt management strategy for 2020–2022, setting annual debt ceilings with strict guidelines on granting sovereign

²² Uzbekistan has increased its commitment by 2030 to (i) reduce greenhouse gas emissions per unit of GDP by 35% from the earlier commitment of 10%, and (ii) increase the renewable energy share of energy consumption to 25%.

²³ Uzbekistan's industries are energy intensive (depending mainly on fossil fuels) and the country has ageing energy infrastructure and high energy subsidies. Energy use per unit of GDP is six times larger than the European Union average. The agriculture sector, accounting for 25% of GDP, is prone to climate change risks because of water deficiency. During 2016–2018, 2% of GDP was spent on support for farmers and irrigation programs with limited impact on productivity. Agriculture accounts for 90.0% of water consumption and 10.5% of greenhouse gas emissions. OECD. 2019. [Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment](#). Paris.

²⁴ Government of Uzbekistan. 2019. *On Measures to Improve the System of Social Protection of the Population Using Interagency Electronic Interaction*. Cabinet of Ministers Resolution. No. 308. Tashkent.

²⁵ According to the Citizens Budget 2021, during the coronavirus disease pandemic, social protection expenditures rose to SUM10.24 trillion in 2021 from SUM8.52 trillion in 2020. The number of social benefit recipients rose to 5.7 million and low-income households receiving childcare and social benefits doubled to 1.2 million in 2021.

²⁶ World Bank. 2021. [Assessing Uzbekistan's Transition. Country Economic Memorandum](#). Washington, DC.

²⁷ Government of Uzbekistan. 2020. *On Additional Measures for Further Development of Competitive Environment and Reduction of State Participation in the Economy*. Presidential Decree No. 6019. Tashkent; Government of Uzbekistan. 2022. *On Measures to Accelerate the Reforming of State Institutions*. Presidential Decree No. 123. Tashkent; and Government of Uzbekistan. 2022. *On the Next Reforms to Create Conditions for a Stable Economic Growth by Improving the Business Environment and Developing the Private Sector*. Presidential Decree No. 101. Tashkent.

guarantees, including for SOE debt.²⁸ To strengthen the performance of SOEs and SOBs and accelerate privatization, in 2020 the government approved a transformation strategy for 2021–2025,²⁹ requiring that SOEs and SOBs (i) have independent supervisory board members, (ii) comply with International Financial Reporting Standards for audited financial statements, and (iii) implement KPIs and modern corporate governance standards. Water and sanitation sector reform involving JSC Uzsvtaminot is part of the government’s strategy to improve infrastructure and management quality in service-oriented public utilities.³⁰ A new state asset management law and complementary privatization law will be approved in 2022 to strengthen the criteria for state ownership of SOEs and for the sale of public sector assets. The government launched a 5-year strategy in 2020 to increase the private sector ownership of banking assets from 15% in 2019 to 60% by 2025,³¹ while keeping JSC National Bank of Uzbekistan, JSC Agrobank, JSC Microcredit Bank and JSC Xalq Bank for government programs.³²

16. **Public sector accountability.** The State Anti-Corruption Program for 2019–2020 was approved, given the government’s commitment to fighting corruption. The Anti-Corruption Agency, accountable to the Parliament and the President, was established in 2020 to oversee (i) internal compliance and anticorruption control over the budget and public procurement, (ii) asset and income declarations of civil servants, and (iii) administrative investigations of corruption offenses.³³ The new Law on Chamber of Accounts (COA) was approved in 2019, and the COA as the supreme public sector audit institution conducts external audit and reports to the Parliament.³⁴ The COA became a member of the International Organization of Supreme Audit Institutions in 2021 and plans to implement audit standards for budget spending and procurement based on International Standards of Supreme Audit Institutions and integrate financial audit bodies and internal audit services under an IT-based platform.³⁵

3. ADB Sector Experience and Assistance Program

17. Building on ADB’s extensive experience and effective coordination with the development partners, the proposed Economic Management Improvement Program, Phase 2 supports the government’s comprehensive reforms on public sector management, including SOE governance.

²⁸ According to the Law on State Budget for 2021, the outstanding public and publicly guaranteed debt will not exceed 60% of GDP. The annual limit on state loan agreements was set at \$5.0 billion in 2021 and \$4.5 billion in 2022. The MOF introduced the Debt Management and Financial Analysis System.

²⁹ Government of Uzbekistan. 2020. *Transformation of SOEs and privatization of state assets under Presidential Decree No. 6096*. Tashkent; and Government of Uzbekistan. 2021. *On Approval of the Strategy for Management and Reform of State-Owned Enterprises in 2021–2025*. Cabinet of Ministers Resolution No. 166. Tashkent.

³⁰ Government of Uzbekistan. 2020. *About Measures for further Enhancement of System of Drinking Water Supply and the Sewerage and Increase Efficiency of Investment Projects*. Presidential Decree No. 6074. Tashkent.

³¹ By 2025, the majority of the 13 SOBs will be restructured and privatized (with participation of foreign investors). Government of Uzbekistan. 2020. *About the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025*. Presidential Decree No. 5992. Tashkent; and Government of Uzbekistan. 2022. *On Additional Measures to further Reduce State Participation in the Economy and Accelerate Privatization*. Presidential Decree No. 168. Tashkent.

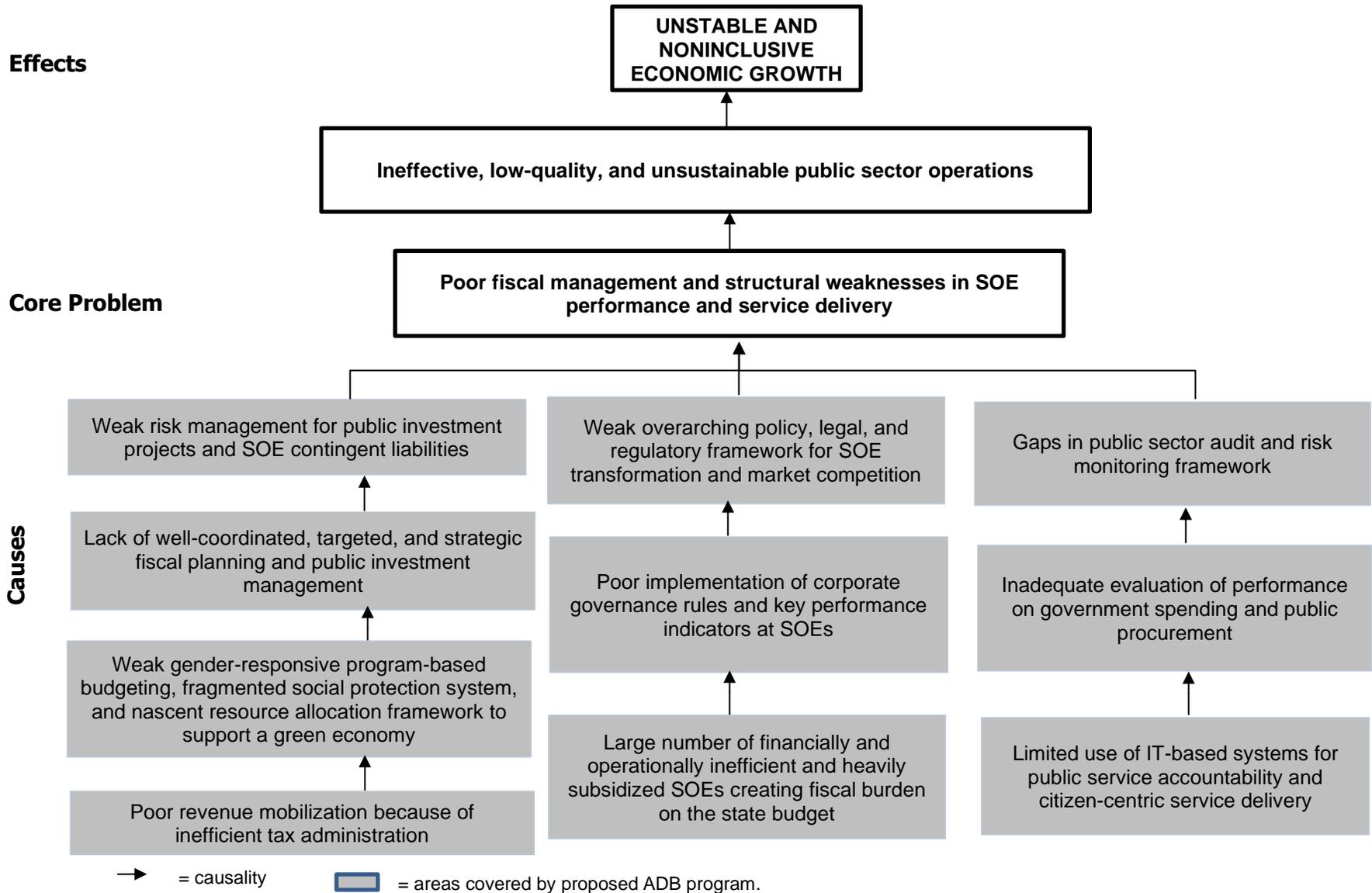
³² In 2019, directed lending and interest rate subsidies to SOEs were reduced and consolidated under the UFRD and policy banks to support market-based lending for the private sector. Government of Uzbekistan. 2019. *About Additional Measures for Enhancement of Procedure for Crediting of the Projects Realized within State Programs of Development of Family Entrepreneurship*. Presidential Decree No. 4498. Tashkent.

³³ Government of Uzbekistan. 2019. *On Measures to further Improve the Anti-Corruption System in the Republic of Uzbekistan*. Presidential Decree No. 5729. Tashkent; and Government of Uzbekistan. 2020. *On Additional Measures to Improve the Anti-Corruption System in the Republic of Uzbekistan*. Presidential Decree No. PP-6013. Tashkent.

³⁴ Government of Uzbekistan. 2021. *About measures for further enhancement of system of the state financial control*. Presidential Decree No. 6300. Tashkent.

³⁵ Risk-based internal audit, public procurement law, and IT-based procurement system were introduced in 2019.

Problem Analysis Diagram for Multisector



IT = information technology, SOE = state-owned enterprise

Source: Asian Development Bank