

# Progress in Uzbekistan

Environment, Social and  
Governance Report **2020**



Russia

Belarus

Ukraine

Kazakh

Georgia

**Uzbekistan**

Armenia

Azerbaijan

Turkmenistan

Tajikistan

Turkey

Syria

Afghanistan

Jordan

Iraq

Iran

Pakistan

Kuwait

Egypt

Qatar

Saudi Arabia

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Eritrea

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Ethiopia



nstan

Kyrgyzstan

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Mongolia

China

Nepal

India

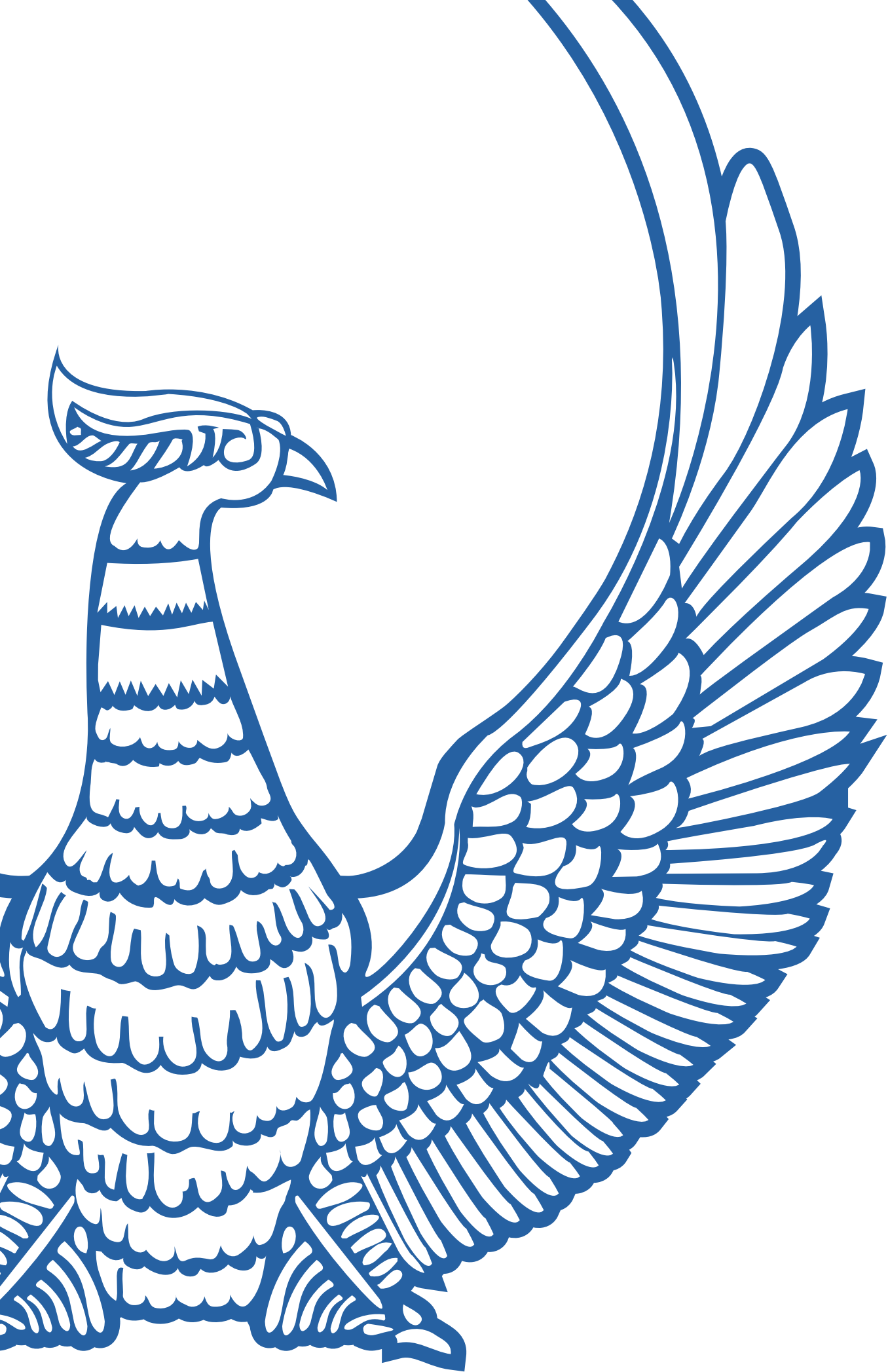
Bangladesh

Myanmar

Vietnam

Laos

Thailand



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# 1. EXECUTIVE SUMMARY

This Environmental, Social and Governance (ESG) report is the first in an annual effort to measure and assess Uzbekistan's progress since the reform process began in 2017. It outlines the rationale behind key reforms and the resulting changes, as well as looking forward towards ongoing and future projects and their expected impact. The report is designed to chart Uzbekistan's progress on the path to sustainable development and social reform using data and facts. This report also addresses efforts to tackle historic challenges caused by the country's past development such as the widespread use of forced labor in the annual cotton harvest.

Uzbekistan is changing massively. Since 2017, the administration of President Shavkat Mirziyoyev has undertaken an ambitious set of reforms designed to replace the heavily regulated economic and social system that existed in the past.

A key goal of this massive transformation is the evolution of a heavily planned economic system into a modern market-based economy. Until 2016 the government was strongly integrated into the economy and largely controlled economic production while playing a broad role in social and environmental issues. The reforms underway in Uzbekistan are designed to change this and transform the nation into an economically and socially modern state.

An important tenant of the reforms is sustainability as a key part of the nation's governmental, social and economic transformation. With this report, Uzbekistan is reporting for the first time on the status and progress in meeting its sustainability goals. The reforms are intended to ensure that the country's change is balanced in ecological, social, governmental and economic terms.

The Government of Uzbekistan is committed to building an innovative, progressive and peaceful country to help ensure prosperity for future generations in which individuals can develop in safety and security. To accomplish this, the Uzbek sustainability model follows the United Nations' Agenda 2030 for Sustainable Development. Uzbekistan is committed to the UN's 17 Sustainable Development Goals which include:

- ▶ Work and economic development
- ▶ Industry, innovation and infrastructure
- ▶ Protect and preserve the environment as the basis of human life
- ▶ Strengthen and guarantee human rights
- ▶ Fight poverty, social inequality and exclusion
- ▶ Recognize that education, science and innovation are drivers of a successful, sustainable society
- ▶ Ensure the rule of law and good governance

The Uzbek sustainability model is designed to become the long-term development strategy for the nation. Besides Uzbekistan's commitment to the UN's Sustainable Development Goals, the government has been working with a number of transnational organizations as part of the reform process. A key objective of this international cooperation is to ensure that the results of the reform process can be financed and lead to laws that are in accordance with internationally accepted legal standards. As part of this work, Uzbekistan is participating in various programs, exchanges and consultations with experts from the Organization for Security and Cooperation in Europe (OSCE), the World Bank, the International Development Association (IDA), the United Nations Conference on Development and Trade (UNCTAD), the World Customs Organization (WCO) and the European Bank for Reconstruction and Development (EBRD) and the International Labor Organization (ILO). Work with non-governmental organizations includes cooperation with groups such as The Cotton Campaign (TCC).

Sustainable development is demanding, both in planning and execution. It places high demands on the collection and evaluation of relevant information, the participation of stakeholders and transparent reporting. This first ESG report was made possible by the open cooperation and a transparent exchange of data and information from ministries across the Government of Uzbekistan.





This report focuses on the current, most pressing, issues and covers three core pillars: *Infrastructure for Growth*, *Active Governance and Strong Civil Society* and *Sustainable Livelihoods*. The second and third pillar are further divided into a number of action areas, together addressing core concerns for both Uzbek and international stakeholders.

*Infrastructure for Growth* outlines the continued efforts to improve infrastructure. Projects range from new and upgraded railway lines and freight facilities to banking and digital infrastructure necessary to unlock growth for the Uzbek economy in the 21st century. An array of projects are designed to make use of Uzbekistan’s favorable geographic location and improve the conditions for logistics and trade. Simultaneously, the government is supporting the development of modern digital and banking infrastructure for citizens and businesses. Both are key to participation in the growth of a modern market economy, be it by enabling access to information or giving access to the benefits of modern payments and investment opportunities.

*Active Governance and a Strong Civil Society* gives insight into some fundamental changes currently happening in Uzbekistan’s governance structure, including improvements in transparency, legal certainty, enforcement and how government decisions are becoming accessible and predictable. Businesses, NGOs and citizens are gaining access to clear norms with even and reliable application. These are important building blocks of a modern economy and society. The economy of Uzbekistan is also being transformed by a fourth area of action: privatization. The government is relinquishing direct control over many aspects of economic life and steadily divesting previously state-owned enterprises. It can thus turn its focus to regulating rather than directly operating the economy.

Finally, *Sustainable Livelihoods* sets other areas for action: education, automation and use-of-resources. These elements are at the core of a long-term view of economic growth and open up the creation of higher value-added jobs and the prospect of a rising standard of living for broad sections of the Uzbek population. Well-trained employees are ready to work in increasingly automated jobs where they would be able to capture a larger share of economic benefits. The rising standard of living can be supported by the sustainable use of natural resources, avoiding or mitigating diminishing natural resources and environmental problems.

The report also provides some context for readers who may not be familiar with Uzbekistan before reading this report. There is a selection of country rankings, some with a thematic focus and some with wider view, to help place the existing state of development in Uzbekistan in an international and regional context.

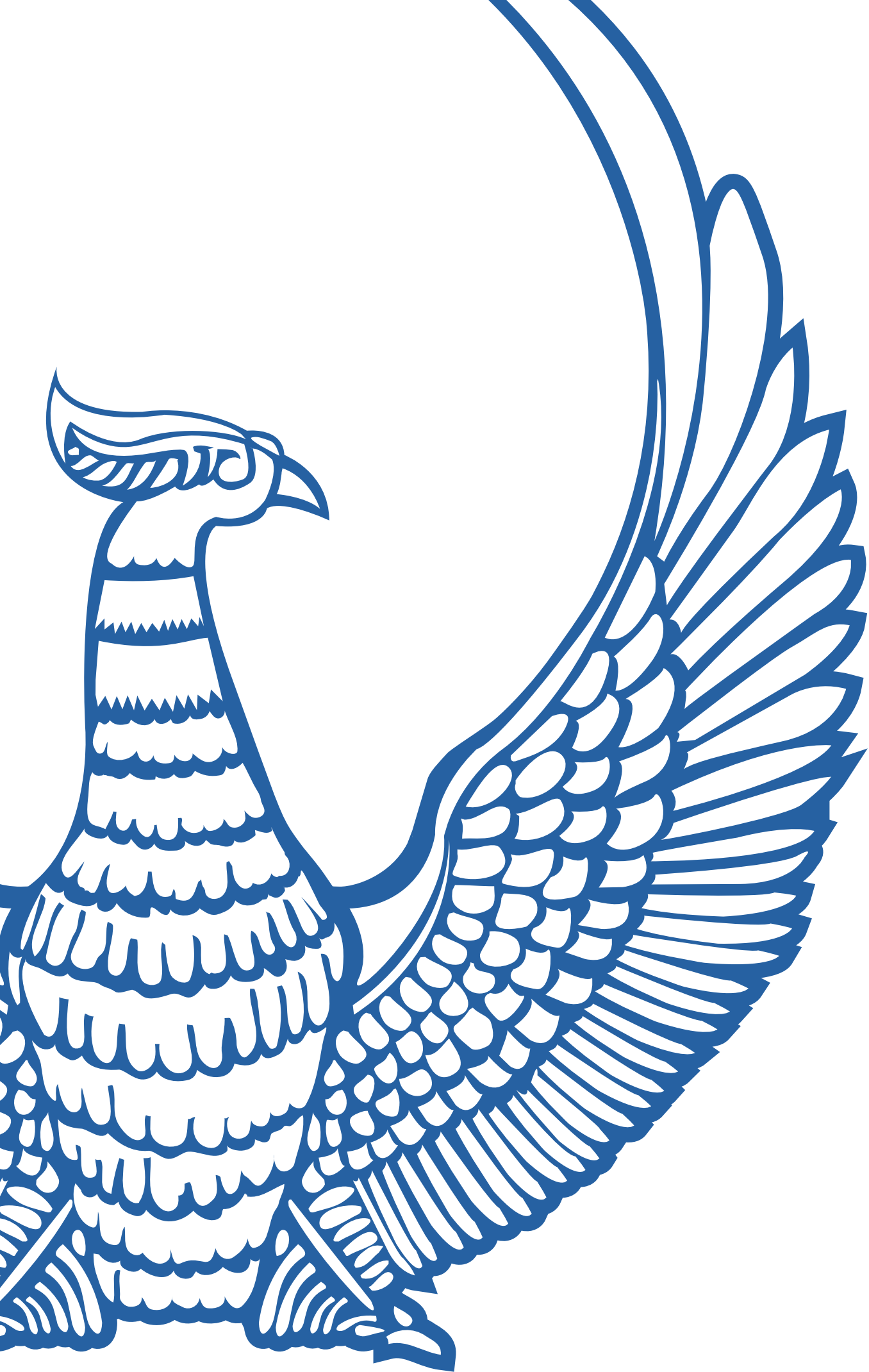
For further context, the report covers current developments including Uzbekistan’s rich history of trade and cultural exchange and as an important intersection of overland routes between China, the Middle East and Europe. It also covers recent developments since the end of the Cold War.

Early in the 2000’s, Uzbekistan began a gradual transition towards a market economy, but this process has been exponentially increased since 2017 with dramatically more ambitious development goals set by the Mirziyoyev Administration.

ESG reports are increasingly common for corporations to report on their societal impact, society, economics and environmental commitments and actions. As part of reform process, the Government of Uzbekistan chose to commission an ESG report to transparently report on the progress of the nation’s ongoing reform program. This is the first Sovereign Environmental, Social and Governance report produced by any nation.

The Environmental, Social and Governance Report 2019 “Progress in Uzbekistan” was written by the consulting firms Cometis AG from Wiesbaden, Germany and Xenophon Strategies, Inc. in Washington, DC, USA. The report took seven months to produce and was made possible by fully open cooperation and the transparent sharing of data and information from virtually every Ministry of the Government of Uzbekistan.







„WE HAVE PUT UZBEKISTAN ON A JOURNEY TO BECOME A MODERN COUNTRY, INTEGRATED INTO THE FABRIC OF THE GLOBAL COMMUNITY OF NATIONS, WITH A GROWING ECONOMY AND RISING STANDARD OF LIVING.“

H.E. Shavkat Mirziyoyev, President of the Republic of Uzbekistan

## 2. FOREWORD

### Dear Reader

We are living through a time of significant change. The political and economic structure of the world is shifting at a rapid pace, just as the impacts of climate change are felt more strongly. And Uzbekistan, like many other countries is preparing to seize the opportunities this era is offering. To do so, the Government of Uzbekistan has initiated a broad and profound program of reform across all areas of politics. This journey started only a few years ago, but we are already seeing the first results.

Uzbekistan is on a journey to become a modern country, integrated into the fabric of the global community of nations, with a growing economy and rising standard of living. The reform agenda builds on past achievements, and it uses that foundation to place the nation on a new growth trajectory.

The government's goals are simple: to build a sense of involvement for all citizens in the future of the nation and to make Uzbekistan's society, institutions, and economy competitive in the modern world. To re-establish the country's position as a center for commerce in Central Asia, at the crossroads of the world. And, most importantly, to create a government that is not just committed to the transparency of power, but one that is proving by actions that it deserves the lasting faith of its people and the world.

To do so, citizens and businesses will need to adjust their way of living and of doing business. At the same time government officials will need to change their understanding of their role in society. Such deep reform is not a sprint, it cannot be accomplished overnight. It's a marathon. The Government of Uzbekistan is in it for the long-haul, taking the millions of small steps required to reach its goals. Some of these steps may seem mundane and unspectacular, but every single one is necessary to reach the finish line. And our efforts are being recognized more and more: In 2020 alone, the WTO resumed membership negotiations with Uzbekistan, we were elected to the UN Human Rights Council and the USA closed their GSP review on worker rights practices in Uzbekistan. And we keep moving ahead to foster Uzbekistan's international integration: In June 2020, we applied successfully for GSP+ status with the EU, which will significantly facilitate trade between Uzbekistan and the EU.

We don't want to stop here. The Government of Uzbekistan is working hard every day to tackle the most urgent problems head-on. The major focus this far has been on deep government institutional reforms that include increased transparency and simplification of laws. Uzbekistan is a country in which the government serves the people and society, not the other way around.

This means creating space for private enterprise to flourish and innovate. And it means enacting effective legislation to protect individuals from abuses by rogue corporations as well as from those who would abuse government power for their own ends. Yet at the same time as the Government of Uzbekistan is more clearly delimiting the sphere of governmental involvement, it is also working to build up its capacity to enforce the new rules.

Uzbekistan has come far in such a short time. Uzbek citizens and observers from abroad are remarking how much the country has changed in a few years. Businesses were privatized to unleash the power of the marketplace. A wide range of industries were liberalized to allow commerce to flourish. Regulations were simplified and administrative processes reduced in many areas, from corporate taxation to trade regulations. The government continued to invest in infrastructure and education, connecting Uzbekistan to the world both physically and intellectually. International media were invited into the country to bear witness to the change, and internet access was increased nationwide to give the people the voice they never had in the past.

This report has been compiled for everyone interested in the future of Uzbekistan and its people. It provides a benchmark on the country's "Journey of Change." The report is a snapshot on the state of the reform program on the most pressing issues Uzbekistan is facing today. It is a unique report, the first of its kind, offering a level of transparency and accountability that will serve the country well for the long term. The positive changes we implemented have become irreversible. The signs are pointing in the right direction. These issues, and our ability to address them, will shape the future of Uzbekistan for some time to come.



## Introduction

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# 3. INTRODUCTION

## 3.1 Methodology

This report documents the environmental, social and governance (ESG) progress of the Republic of Uzbekistan as of 2019. Under the Mirziyoyev administration, Uzbekistan has gone through a significant number of important reforms that will lead to positive results for the country's long-term development. The first results of this transformation of Uzbekistan into a modern, open and sustainable market economy can already be seen and serve to improve the lives of the Uzbek people, one step at a time.

Any ESG report must focus on those issues that are most important to sustainability in its specific setting. While the work of the Government of Uzbekistan naturally covers the full breadth of issues the nation is facing, not all of them have the same impact on the sustainable development of Uzbekistan in the future. It is thus important to focus on those issues that are material to the subject of sustainability in Uzbekistan. This report, therefore, selectively covers those issues that are currently most crucial to the further development of Uzbekistan in the view of the Government of the Republic of Uzbekistan. The core pillars of development covered in this report have been selected in consultation between various government entities and international experts to allow the reader to gain an understanding of the most crucial questions. The report focuses on three pillars:

- ▶ **Infrastructure for growth** — focused on the build-up and renovation of infrastructure required to ensure future growth and human development throughout both urban and rural areas of Uzbekistan.
- ▶ **Active governance and strong civil society** — detailing the progress and future projects around establishing a strong system of governance.
- ▶ **Sustainable livelihoods** — outlining projects designed specifically to enable long-term economic growth, ensuring economic foundations are set for further reform projects.

These are the core pillars on which the further economic and human development of Uzbekistan will rest. The second and third issue pillar in turn are divided into a number of areas for action. These areas for action concern the specific reform priorities for the Government of the Republic of Uzbekistan within each pillar, and will also help the reader navigate the various issues at hand.

The data presented in this report comes from a variety of sources. Statistical information is provided by the State Statistics Committee of the Republic of Uzbekistan and the relevant ministries and agencies within the government. These ministries and agencies have also contributed to the information on completed, ongoing and future reform projects, painting a detailed picture of the state of play at this time. Data and rankings from established international institutions provide important contextual information and serve as independent verification sources of recent progress in Uzbekistan. The information has further been enriched with explanations outlining the reasoning behind some of the main reform programs to make the government's strategic thinking more accessible and transparent to the reader.

For those readers searching for specific information or data on one or more issue areas, the appendix to the report contains reference tables with data and points towards the sections where individual issues are discussed.

The report employs the Sustainable Development Goals ("SDGs"), as set out in the United Nations 2030 Agenda for Sustainable Development, as a reference framework. The SDGs are widely accepted as a framework for information on sustainability issues and will help the reader to quickly identify sections in the report which may be of particular interest. The well-known SDG-icons as depicted here, are present both in the reference tables in the annex and on the individual pages of the report. The diligent reader will notice that some goals within the SDGs receive more space within this report than others. This reflects the priorities a country such as Uzbekistan necessarily has to set when working to rapidly transform its economic and social structures, addressing the most urgent issues first.





The United Nations describe the SDGs as a “blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice.” The Government of Uzbekistan supports the UN SDG Agenda: In October 2018, 16 national sustainable development goals and 125 targets were adopted.

At the level of the government, an interdepartmental Coordination Council headed by the Deputy Prime Minister of Uzbekistan has been established and a corresponding Road Map for implementation of national SDGs has been put in place. This year, Uzbekistan’s first Voluntary National Review has been delivered to the United Nations Economic and Social Council.

# SUSTAINABLE DEVELOPMENT GOALS

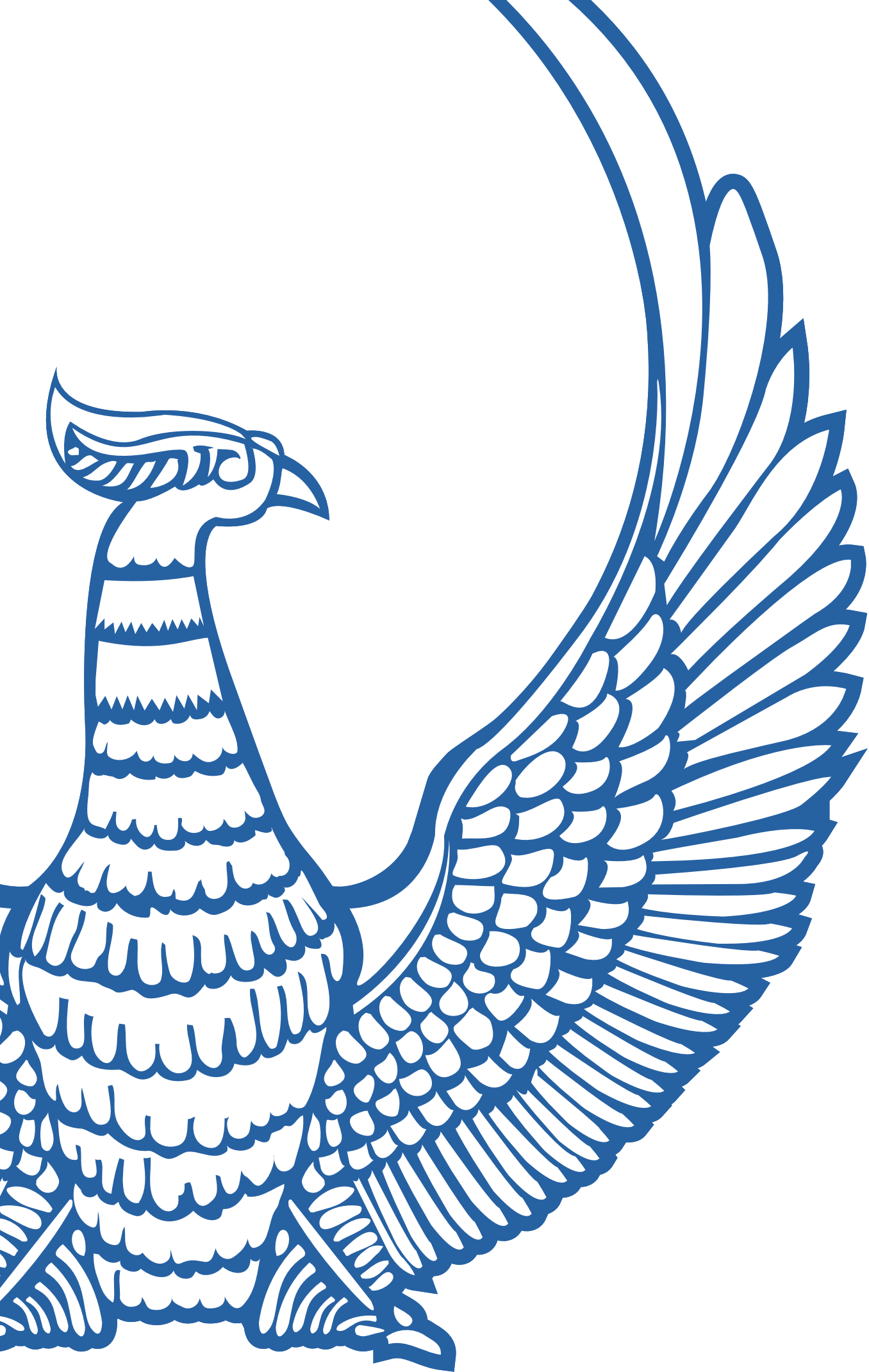


### 3.2 Uzbekistan's development in international rankings

Ranking (Issuer)	2020	2019	2018	Change 2018-19
Index of Economic Freedom (The Heritage Foundation and The Wall Street Journal)	57.2 (114th)	53.3 (140th)	51.5 (150th)	+11% (+38)
Freedom on the Net score (Freedom House)	27	26	25	+8%
Ease of Doing Business (World Bank)	69.9 (69th)	67.4 (76th)	66.3 (74th)	5% (+5)
SDG Index (Sustainable Development Solutions Network and Bertelsmann Stiftung)	71.0 (66th)	71.1 (52nd)	70.3 (52nd)	+1% (-14)
Human Development Index (United Nations)	not yet published	0.71 (108th)	0.71 (108th)	n/a
Press Freedom Index (Reporters Without Borders)	53.07 (156th)	53.52 (160th)	60.84 (165th)	-13%* (+9)
Environmental Performance Index (Yale University)	44.3 (88th)	not published	45.88 (136th)	-3%* (+48)
Country of the Year (The Economist)	<p>The 2019 award for Uzbekistan was based on progress in multiple fields:</p> <ul style="list-style-type: none"> <li>▶ the strong reduction of forced labor;</li> <li>▶ the closing of the Jaslyk prison;</li> <li>▶ welcoming foreign journalists;</li> <li>▶ a general strengthening of economic and civil society aspects</li> </ul>			

\* In this Index, 0 is best and 100 is worst





## History of Uzbekistan

- 4.1 From the ancient Silk Road to end of the Cold War
- 4.2 1990 - 2016 Continuity in a changing world

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# 4. HISTORY OF UZBEKISTAN

## 4.1 From the ancient Silk Road to the end of the Cold War

Uzbekistan has a long and rich history that goes back until at least the first millennium B.C. It is around this time that the states of Bactria, Khorezm and Soghdiana emerge and the towns Bukhara and Samarkand begin to flourish as cultural and political centers of the region. When China developed its silk trade with the West, these cities largely benefited from their strategic location at the heart of the so-called ancient Silk Road, and thus increasingly gained economic importance. This led to an accumulation of wealth in those cities. Soghdian merchants especially benefited from the thriving trade in Central Asia at the time.

In the seventh and eighth century AD, Arabs conquered and settled in parts of Central Asia, and as a result, Islam spread throughout the region. To this day, Islam has influenced the cultural development of Central Asia and remains the dominant religion in the region. During the height of the Abbasid Caliphate in the eighth and ninth centuries, Bukhara became one of the leading centers of culture and art in the Muslim world.

Around 1020, brothers Tughril Beg and Chaghri Beg served the Kara-Khanids of Bukhara. Thanks to their military genius they survived their lords and went on to found the Great Seljuk Empire. At the height of their power, in 1092, the Seljuks ruled a vast area between the eastern coast of the Mediterranean to the north western ranges areas of Afghanistan and into Kyrgyzstan. The first to unite the eastern Islamic world, the Seljuks became a main player in the first and second crusades and settled Turkic tribes in Anatolia, influencing the area until today. The Seljuk empire eventually fractured and collapsed, giving way to the Khwarezmian Empire in modern day Uzbekistan, Turkmenistan and Iran.

The Mongol invasion of Central Asia in the early thirteenth century under Genghis Khan destroyed the Khwarezmian empire, which included what is today Uzbekistan. It was this campaign that earned the Mongols their reputation for bloodthirsty ferocity. The Mongol rulers also established a tradition in which any legitimate ruler of any Central Asian state needed to be a blood descendant of Genghis Khan.

In the late fourteenth century a leader named Timur from the area of Samarkand, founded the Timurid empire. His reign was characterized by military success as well as cultural achievements, starting the so-called Timurid Renaissance. He conquered all of Central Asia, Iran and Asia Minor and brought artisans and scholars from the lands he had invaded to Samarkand. It was during the Timur dynasty that the Turkic language, in the form of the Chaghatai ("old-Uzbek") dialect, emerged as a literary language in its own right in the region.

At the start of the sixteenth century, nomad tribes living north of the Aral Sea began invading the area that is now Uzbekistan, and by 1510, had conquered large parts of Central Asia. The most powerful of the states they created was the Khanate of Bukhara, which controlled the region around present-day Tashkent, the Ferghana-Valley and northern Afghanistan.

Due to ongoing conflicts and wars among the Uzbek Khanates and Iran, the eighteenth century was rife with instability and disruption throughout the region. During this time, Russian merchants expanded into present-day Kazakhstan and began establishing trade relations with their counterparts in Tashkent. In the late eighteenth and early nineteenth centuries, both Russia and Great Britain moved into the region in an attempt to expand their respective territories. Russian interest in Central Asia grew due to concerns over British ambitions in the region and to establish a secure source of cotton for Russia after the American Civil War prevented deliveries from the southern United States. By the end of the century, all of present-day Uzbekistan was part of the Russian empire. The first decades of Russian influence saw a significant increase in cotton production, an expansion of infrastructure and the development of an Uzbek middle class.

In the early twentieth century, Central Asia experienced increased civil unrest and revolts. Attempts of forming independent governments were prevented by the Red Army. Following the establishment of Soviet rule in the region, the Bolsheviks redrew the Central Asian map along ethnic lines and Karakalpakstan and Uzbekistan emerged as ethnically designated territories within the Union of Soviet Socialist Republics (USSR). Soon Uzbekistan was granted the formal status of constituent republic of the USSR and Karakalpakstan was transferred to the Uzbek SSR in 1936. However, Karakalpakstan retained its autonomous status.

The Soviet era brought educational and technological advances to Uzbekistan. There were heavy investments into infrastructure and the agricultural sector was expanded substantially. These efforts focused heavily on increasing cotton production and introduced the first quotas. However, Uzbeks remained underrepresented in the Soviet administration in the capital of Tashkent, and under the officially prescribed state atheism, religious practices were not supported by the rulers in Moscow. In 1929, the Tajik and Uzbek SSRs were separated. During World War II, many industrial plants were moved to Uzbekistan. With them came a large number of Russian workers strengthening Russian influence in Uzbek urban centers.

In 1989, Islam Karimov became first secretary of the Communist Party of Uzbekistan. The appointment of Karimov, who had not been part of the political elite, was seen as an attempt by the leaders in Moscow to lessen tensions between a people who felt they were unduly singled out in a wave of recent purges against Uzbek officials. However, this attempt showed little success.

The more liberal leadership of Mikhail Gorbachev allowed Uzbeks to increasingly express their discontent with the political status quo. Uzbekistan finally declared independence on 31 August 1991. The ensuing referendum was passed with 98.2% of the popular vote and Karimov was chosen as the leader of the new Republic of Uzbekistan.

4.2 1990 - 2016 Continuity in a changing world



UZBEKISTAN JOINS THE CIS

Islam Karimov of the Communist Party of Uzbekistan had been the President of the Uzbek SSR from 24 March 1990 until he declared the independence of Uzbekistan on 1 September 1991.<sup>1</sup> With the declaration, Uzbekistan officially joined the Commonwealth of Independent States (CIS) which was founded the same year.<sup>2</sup>

DISSOLUTION OF THE U.S.S.R.: GORBACHEV RESIGNS

Following more than 70 years of Soviet rule, and the collapse of the Soviet Union started a period of transition for the country. Opportunities to establish new international relations, as well as to further develop and modernize its economy, opened up for Uzbekistan. Simultaneously, this period was also characterized by new external constraints. Above all, the dissolution of the Soviet Union left a power vacuum in Central Asia. This gave rise to political instability in the region, but also repeatedly attracted the attention of Western powers, as well as Russia and China.<sup>3</sup>

1 Melvin, N.J. (2000) Uzbekistan: Transition to Authoritarianism, Harwood Academic Publishers  
 2 Commonwealth of Independent States (CIS), About Commonwealth of Independent States, 07/01/2020, <http://www.cisstat.com/eng/cis.htm>  
 3 Immigration and Naturalization Service Resource Information Center (1994) Profile Series Uzbekistan: Political Conditions in the Post-Soviet Era, Washington D.C.

28 December  
1991

1991  
—  
2016

2017

## OFFICIAL ELECTIONS — KARIMOV BECOMES PRESIDENT

Islam Karimov was elected the President of Uzbekistan by a majority of 88%. Considering the underlying political fragility in Central Asia in the 1990s, his administration especially focused its efforts on strengthening and protecting Uzbekistan's newly gained autonomy and independence to preserve the country's assets and maintain stability.<sup>4</sup>

## PRESIDENT KARIMOV AND HIS ADMINISTRATION

Islam Karimov remained the President of Uzbekistan until his death in 2016. Over the course of his presidency, Karimov valued the country's autonomy above all and did not intend to risk it by making changes that could potentially destabilize Uzbekistan. He looked to future generations to introduce changes and focused his efforts on stability following the end of the Soviet empire.<sup>5</sup>

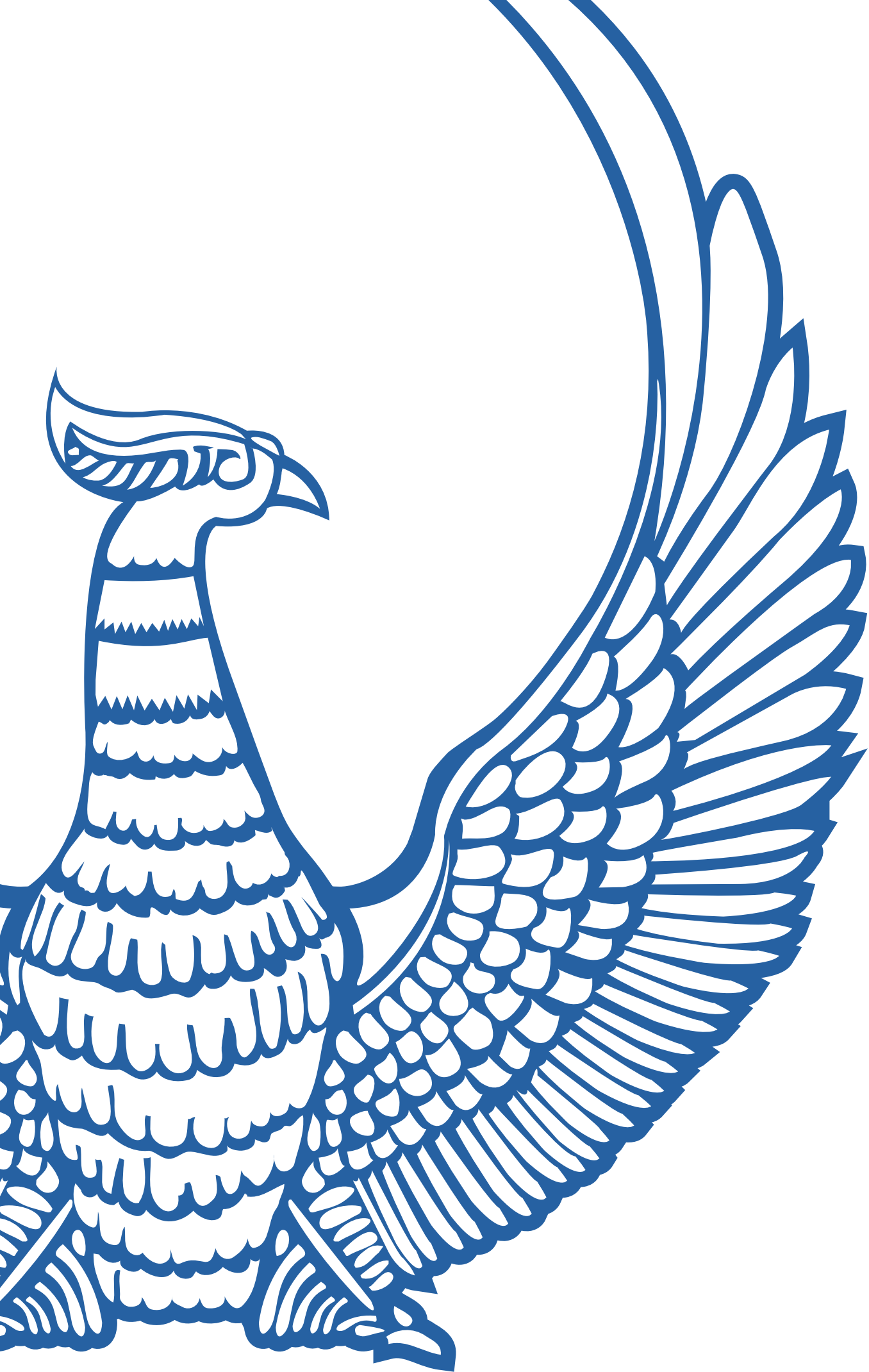
## START OF NEW ERA IN UZBEKISTAN'S HISTORY UNDER MIRZIYOYEV'S ADMINISTRATION

<sup>4</sup> Carnegie Endowment for International Peace, Background on Islam Karimov, Washington DC Carnegie, 03/26/2012, 07/01/2020, <https://carnegieendowment.org/2012/03/26/background-on-islam-karimov-pub-47650>

<sup>5</sup> Starr, S.F., Cornell, S.E. (2018), Uzbekistan's New Face, Rowman & Littlefield







## Infrastructure for growth

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# 5. INFRASTRUCTURE FOR GROWTH

## 5.1 Creating structures for sustainable progress

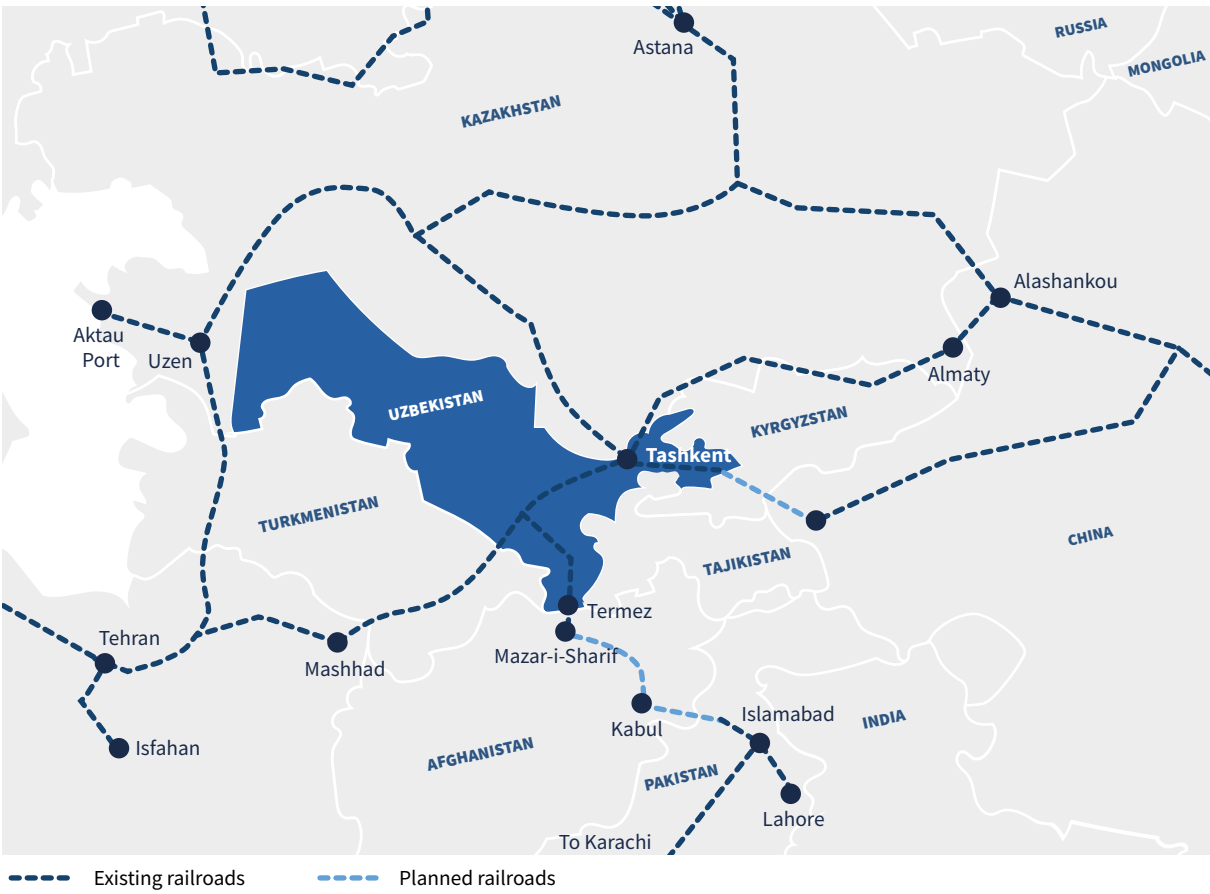
At 33.5 million inhabitants, Uzbekistan is second only to Russia (144.4 million) in terms of population in the Commonwealth of Independent States (CIS) and is by far the most populous state in Central Asia proper. Bordering on Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan, Uzbekistan lies at a historical crossroads between East and West. The roots of cities like Bukhara, Samarkand or the capital Tashkent reach back into the days of the ancient Silk Road that spanned over 6,000 km to enable trade between Europe and China.

The favorable geographical location of Uzbekistan in the heart of Asia, combined with its growing population and young workforce, makes the country an ideal spot for expanding its role as an

interregional logistics and transportation hub and center of economic activity. However, to ensure that Uzbekistan can reach its full potential, substantive investments in the country's infrastructure capacities are required.

Physical transportation infrastructure, such as roads and railways, are not the only focus of attention. Improvements in the country's financial structures help facilitate a more efficient and productive use of capital, and improvements in the digital infrastructure support Uzbekistan's transition into a modern 21<sup>st</sup> century economy. The following exemplary cases will shine a spotlight on Uzbekistan's progress when it comes to developing and enhancing competitive and sustainable infrastructure, from transport to digital infrastructure and access to financial services infrastructure.

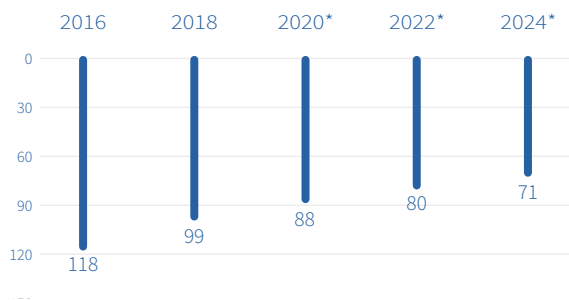
At the crossroads: Railroad corridors connecting Uzbekistan to the region



## 5.2 Building roads and railways

As one of only two double-landlocked countries in the world (the other one being Liechtenstein in Europe), the development of a functioning and efficient transportation system is critical for Uzbekistan's success. Historically already a central transportation hub, in the last few years the Government of Uzbekistan has made significant strides to make Uzbekistan a key center of interregional trade and transport again.

Uzbekistan's ranking in the Global Logistics Performance Index



### 5.2.A Passenger transport

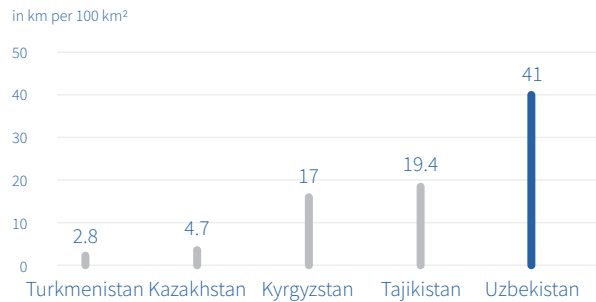
At 41 km per 100 km<sup>2</sup> of geographical area, Uzbekistan has by far the highest density of road networks of all Central Asian states (Tajikistan, at 19.4 km per 100 km<sup>2</sup>, comes in at a distant second). Correspondingly, the challenges to maintain a total length of public roads of more than 42,000 km are high, yet measurable improvements can already be witnessed: while back in 2015, 93.8% of all public roads had been paved, this number rose to 98.5% in 2019. This improvement has been especially beneficial for the public, as road transport accounts for the vast majority of passenger turnover at 89.9% — as a result, passenger transportation activity overall is rising, with passenger turnover across all modes of transport increasing by 4.1% in 2018 over 2017.



**98.5%**

of public roads are paved as of 2019  
 Δ +4.7p.p. (2015: 93.8%)

### Density of road networks



Transport, especially road transport also comes at a price beyond infrastructure investment. Road accidents and fatalities impose a human and economic cost on Uzbekistan every year. To reduce the loss of life and to lower the resources expended on healthcare and lost opportunities, the Government of Uzbekistan is working to improve road safety. As passenger turnover grew over the past few years, improvements in passenger security have made travelling on Uzbek roads distinctively safer. In 2019, the total number of road accidents decreased by 4.5% compared to 2018, the number of injuries from road accidents decreased by 6.1%, and the number of deaths declined by 7.3%.



**8,588**

number of road accidents in 2019  
 Δ -4.5% (2018: 8,990)

Still, especially at the regional level, the road infrastructure has to be improved. Various projects are underway throughout Uzbekistan at the moment, the most notable being the “Regional Roads Development Project”. The goal of this project is the improvement of over 300 km of priority regional roads in the Tashkent, Ferghana, Andijan and Namangan regions. Total costs are projected at approximately USD 240 million. The project is co-financed by the Government of Uzbekistan and the International Development Association (IDA), a sub-branch of the World Bank.

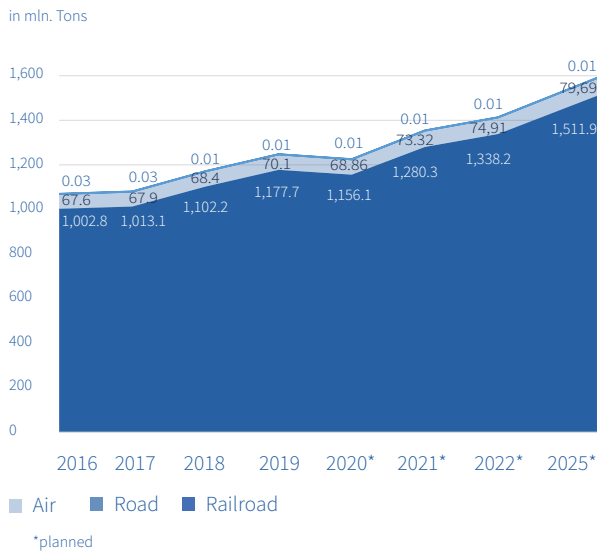


## 5.2.B Transportation of goods



When it comes to the transportation of solid goods, however, railways are the number one option in Uzbekistan. In 2018, cargo turnover by means of railway transportation totaled approximately 23 billion tonne-km (or 32.2% of total cargo turnover, second only to pipeline transport, mainly of gas and oil, at 47.1%). Consequently, the improvement and extension of the Uzbek railway network is critical to ensure continued growth of the Uzbek economy by ways of trade internationalization. A central keystone in this regard is the China-Kyrgyzstan-Uzbekistan transportation corridor, whose improvement greatly enhances trade opportunities between Uzbekistan, Kyrgyzstan and China. A first big milestone was reached in 2016, when the Angren-Pap railway in Uzbekistan was finished, vastly reducing the travel time and cost between the Ferghana region and Tashkent, but also easing transport further into Kyrgyzstan and China.

### Development of freight volume per mode of transport



The Angren-Pap railway served to make transport throughout Uzbekistan faster and more efficient and helped connect Uzbekistan's East with the West. The total cost of the 123.1 km long Angren-Pap railway amounted to around 1.6 billion USD and was co-financed by the Government of Uzbekistan

(1.09 billion USD), the Export-Import Bank of China (0.35 billion USD) and the International Bank for Reconstruction and Development (IBRD), part of the World Bank (0.2 billion USD). Especially challenging was the construction of the 19.2 km long Kamchiq tunnel underneath the steep Kamchiq pass, making the tunnel the longest in Central Asia. The tunnel was finished in just 900 days and the Angren-Pap railway opened in July 2016, only three years after the start of the project. A further project is now underway to electrify the railway from Pap via Namangan to Andijan.

Another current railway project with big future opportunities is the Trans-Afghan railway that will, once finished, create a direct connection for Uzbekistan to the Indian Ocean. The project will serve to ensure peace and stability and bring prosperity across South Central Asia. For the Trans-Afghan railway to be completed the construction of a 573-kilometer-long section is still necessary, with the costs estimated at around 4.8 billion USD. Project financing is currently underway and the three participating governments of Afghanistan, Pakistan and Uzbekistan are firmly committed to work together to finalize the project.

## 5.3 Improving digital infrastructure

To be successful in the 21<sup>st</sup> century, Uzbekistan not only needs to improve its more "traditional" infrastructure such as roads, railways or power generation, but also expand its digital and IT infrastructure. The potential for growth is huge: while the digital economy contributes 12.4% to the UK's gross domestic product, 8% to South Korea's, 5.6% to India's and 3.9% to Kazakhstan's, its share in Uzbekistan's GDP is a mere 2.2% as of 2019. But the Government of Uzbekistan has set itself ambitious goals to jumpstart the digital potential of the country: By 2025, the information and communications technologies' (ICT) contribution to the Uzbek GDP is expected to reach 5% of GDP and 10% by 2030, on par with technologically advanced economies.<sup>6</sup> And 2020 is a special year for the Uzbek digitalization efforts, as President Mirziyoyev has declared it "The Year of Development of Science, Education and Digital Economy" signifying a particular focus on these topics in the work of the Government of Uzbekistan.



**10%**

Target share of the digital economy in Uzbekistan's GDP by 2030

△ +7.8p.p. (2019: 2.2%)



<sup>6</sup> ReviewUZ, Узбекистан оцифровывается, 2019, 06/01/2020, <https://review.uz/ru/post/uzbekistan-otsifrovivaetsya#:~:text=Доля цифровой экономики в ВВП,Казахстане - 3%2C9%25>

## Route of the Angren-Pap railway



Steady investments into improving the internet infrastructure in the last few years are already showing positive results and underscore that Uzbekistan is quickly catching up to other countries. According to the July 2020 “Speedtest Global Index” from the Internet analysis firm Ookla, mobile download speed in Uzbekistan increased by more than 20% to 12 Mbps while fixed broadband speed jumped by 60% to 30 Mbps in just one year.<sup>7</sup>



### 30 Mbps

fixed broadband speed in 2019

△ +60% faster than in 2018

One of the reasons for this positive development is the successful expansion of fiber-optic communication lines throughout Uzbekistan. At around 34,500 km in 2019, their total length almost tripled compared to 2013 (12,700 km), with 12,000 km more to be finished in 2020.



### 34,500 km

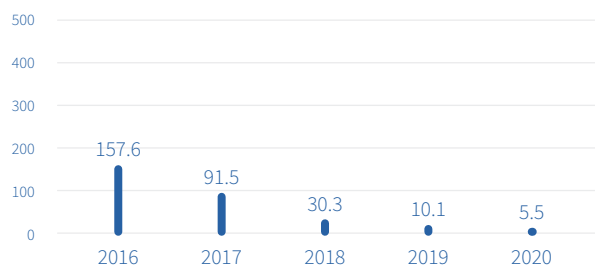
length of fiber-optic communication lines throughout Uzbekistan

△ +270% (2013: 12,700 km)

Simultaneously, and as a result of market liberalization, internet usage has become vastly more affordable as the tariff costs for internet service providers sank significantly. In 2013, 1 Mbit/s cost a whopping 422.27 USD on average, and in 2017, while having significantly fallen, still stood at a very high 91.5 USD. In 2018, it had fallen all the way down to just 10.11 USD.<sup>8</sup> While still considerably higher than the world average price for internet services at around 3 USD, the trend here is clearly moving in the right direction.

## Internet tariffs for 1 Mbit/s

in USD



As the internet becomes cheaper, consequently, the share of individuals using the internet in Uzbekistan more than doubled from 26.8% in 2013, or approximately 8.1 million individuals, to 55.2% in 2018 (over 18.3 million individuals).<sup>9</sup>



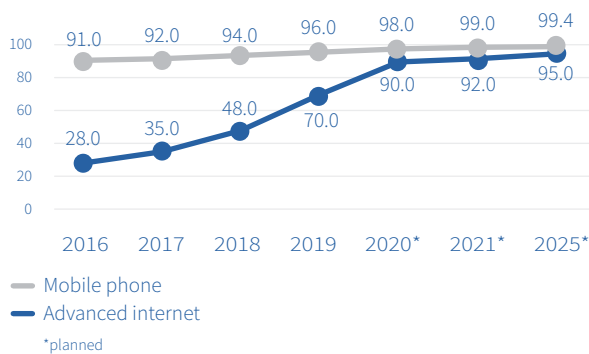
<sup>7</sup> Speedtest Global Index, Ranking mobile and fixed broadband speeds from around the world on a monthly basis, Speedtest, 08/2020, 08/07/2020, <https://www.speedtest.net/global-index/uzbekistan>

<sup>8</sup> MITC, The cost of tariffs for Internet services (external channel) for providers (\$), 2019, 08/03/2020, <https://mitc.uz/ru/stat/5>

<sup>9</sup> The World Bank, Individuals using the Internet (% of population) - Uzbekistan, 2019, 08/04/2020, <https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=UZ>

Correspondingly, use of social media platforms has also been on the rise in the last few years: According to the “Digital 2020” report for Uzbekistan by the international social media agency We Are Social and the social media managing platform Hootsuite, as of January 2020, a total of 3.2 million Uzbeks (or 9.6% of the total population) were active users of social media. This shows a strong increase of 60% over January 2019 at 2 million users. Social media channels are increasingly becoming essential tools not only for private, but also for public communication — a trend the government decidedly welcomes as a sign of a modern society. With access to advanced internet coverage continuously rising, the number of web and social media users is expected to keep growing strongly. This growth will make it possible for an ever-increasing number of Uzbek citizens to participate in and contribute to the digital sphere in Uzbekistan, unlocking yet untapped innovation potentials and bridging still existing digital divides in Uzbek society.

#### Development of mobile phone and advanced internet coverage



International internet rankings further show that online connectivity and use is spiking way up in Uzbekistan after more national data for analysis has been made available. The “Mobile Connectivity Index” by GSMA, an industry association of mobile network operators worldwide, that measures mobile internet adoption in a country showed large increases. The association measures factors including: “infrastructure,” “affordability,” “consumer readiness” and “content and services.” In 2018, Uzbekistan jumped +11.4 index points to a score of 43.9, which — while being second-lowest among 47 European and Central Asian countries — was the 7th largest improvement in Europe and Central Asia since 2014.

Another ranking shows there is room for improvement when it comes to inclusive internet access for all Uzbeks. After not being ranked in Facebook’s Inclusive Internet Index in 2019 nor the “Economist” magazine’s

“Intelligence Unit” rankings, in 2020 Uzbekistan placed 69th of 100 analyzed countries with an index score of 59.5 (the average score of all countries was 66.1). The Facebook Index benchmarks countries on the internet’s availability, affordability, relevance and the readiness of people to use it. Compared to previous data points that had been collected for Uzbekistan (but not enough for inclusion in the index), the Inclusive Internet Index data for 2020 revealed that more indicators had improved than declined in comparison to 2018 or 2019. Seeing the dramatic speed of internet reforms in Uzbekistan, improvements in these and other international internet indices are to be expected in the upcoming years.



## 43.9 points

scored in the “Mobile Connectivity Index” 2018

△ +11.4 (2017: 32.5 points)

One of these is the Global Innovation Index from the business schools Cornell SC Johnson College of Business, INSEAD and the World Intellectual Property Organization that measures the innovation performance of currently 131 countries worldwide. In the 2020 Index, Uzbekistan ranks 93rd. The goal for 2030 set forth by the Uzbek Ministry of Information Technology and Communications Development (MITC) is to land in the global Top 50 in that ranking.<sup>10</sup>

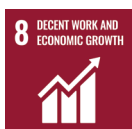


## 93<sup>rd</sup>

Global Innovation Index 2020

Goal for 2030: Top 50

For this purpose, the MITC developed a national ICT 2030 strategy that entails plans like increasing access to and use of computers in schools, further increased internet coverage and speed and the digitalization of 90% of all public services.<sup>11</sup> In the three-year span from 2020 to 2022, the MITC has been tasked by the Government of Uzbekistan to realize a total of 268 ICT projects around the country based on the resolution „On measures for the widespread introduction of the digital economy and electronic government“ that was adopted in April 2020.<sup>12</sup> With the coronavirus pandemic having made the world painfully aware of the need for comprehensive digital offerings, the resolution reinforced the Government of Uzbekistan’s determination for catapulting Uzbekistan into the digital future.



<sup>10</sup> Voluntary national Review (2020)

<sup>11</sup> Ibid.

<sup>12</sup> MITC, Press Release to the Resolution of the President of the Republic of Uzbekistan „On measures for the widespread introduction of the digital economy and electronic government“, 04/20/2020, 08/03/2020, [https://translate.googleusercontent.com/translate\\_c?depth=1&hl=de&pto=aue&rurl=translate.google.com&sl=ru&sp=nmt4&tl=en&u=https://mitc.uz/ru/news/1362&usg=ALkJrhgYftae6v9\\_yirNwZN0\\_MvzBlapPg](https://translate.googleusercontent.com/translate_c?depth=1&hl=de&pto=aue&rurl=translate.google.com&sl=ru&sp=nmt4&tl=en&u=https://mitc.uz/ru/news/1362&usg=ALkJrhgYftae6v9_yirNwZN0_MvzBlapPg)



The 268 ICT projects tackle five areas of interest and split as follows:

- ▶ 87 projects in the real economy; e.g. the improvement of the passenger registration system at major airports or the introduction of remote identification of individuals in the banking system.
- ▶ 104 e-government projects; e.g. digital management of the process of assigning pensions or information databases on digital agriculture or mandatory medical insurance. The aim is to digitalize 60% of public administration services by 2023, compared to less than 30% at the end of 2019.
- ▶ 35 telecommunication infrastructure projects; e.g. greatly expanding the broadband network by installing a total of 800,000 ports or enhancing the mobile network system by launching almost 1,500 new base stations.
- ▶ 18 projects revolving around the Uzbek Techparks, campuses dedicated to intersectional IT innovations; e.g. expanding activities of existing techparks, the building of new technology training centers and the more active involvement of the techparks in introducing IT technologies in other sectors of the economy.
- ▶ 24 projects for the introduction of digital technologies in agriculture and water management; e.g. the electronic registration of farm animals or the introduction of digital water consumption metering systems.



# 268

Number of ICT projects to be realized to be realized until 2022 to boost digitalization in Uzbekistan

Apart from making processes more efficient and public offerings more accessible for the general public, these reforms will also serve to propel the digital economy in Uzbekistan forward: the goal is a tripling of the volume of digital business services by 2023 and thereby reaching exports of digital products of around USD 100 million.<sup>13</sup>



# 60%

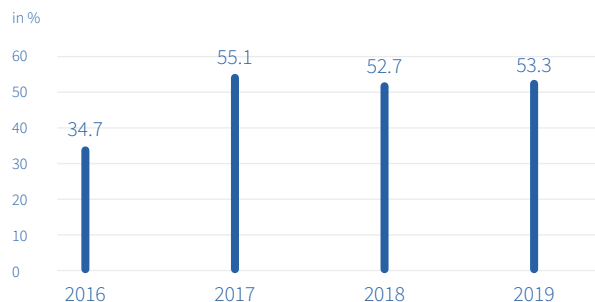
of public administration services digitalized until 2023

△ 30p.p. (2019: 30%)

## 5.4 Financing growth

The growth potential of the Uzbek economy can only be fully unlocked with the help of a modern, market-oriented financial infrastructure. When capital is allowed to flow freely, regulated only to prevent abuse, it frequently will find the most efficient way into the economy and foster entrepreneurship and innovation. So, while the Government of Uzbekistan is already making great strides to reduce its influence on the real economy, divesting shares in more and more formerly state-controlled or -influenced companies and industries, reform in the banking sector is following in lock step.<sup>14</sup>

Size of the banking sector (total assets as a percentage of GDP)



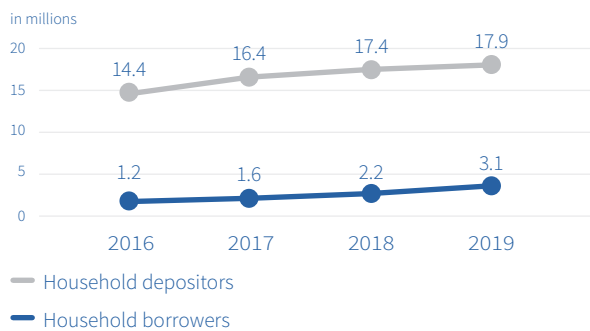
Over the past years, the penetration of banking services in the Uzbek population has increased as evidenced in the charts shown here. The number of ATMs per 100,000 adults rose from 1.4 in 2016 to 16.7 in 2020, representing an increase of 1,193%, while the number of household deposits in banks per 100,000 adults rose from 90,033 to 112,773 in the same period, adding just over 25%. The size of the banking sector, expressed in total assets as a percentage of GDP, increased markedly between 2016 and 2017, jumping from 34.7% to 55.1% but remained relatively steady through 2019, reaching 53.3% of GDP.



<sup>13</sup> MITC, Press Release to the Resolution of the President of the Republic of Uzbekistan „On measures for the wide-spread introduction of the digital economy and electronic government“, 04/20/2020, 08/03/2020, [https://translate.googleusercontent.com/translate\\_c?depth=1&hl=de&pt=ae&rurl=translate.google.com&sl=ru&sp=nm4&tl=en&u=https://mitc.uz/ru/news/1362&usg=ALkJrhgYftae6v9\\_yirNwZNO\\_MvzBlapPg](https://translate.googleusercontent.com/translate_c?depth=1&hl=de&pt=ae&rurl=translate.google.com&sl=ru&sp=nm4&tl=en&u=https://mitc.uz/ru/news/1362&usg=ALkJrhgYftae6v9_yirNwZNO_MvzBlapPg)

<sup>14</sup> Xinhua, Uzbekistan plans massive privatization move, 02/28/2020, Accessed 08/04/2020, [http://www.xinhuanet.com/english/2020-02/28/c\\_138828309.htm](http://www.xinhuanet.com/english/2020-02/28/c_138828309.htm)

### Total number of household depositors and borrowers



The main oversight role in the reformed banking sector of the future will fall to the Central Bank of the Republic of Uzbekistan. To strengthen its supervisory and steering functions, as well as ensure its political independence, a number of laws and decrees have been passed since 2018, giving the Central Bank a series of important responsibilities. The reforms are directed at creating and maintaining a stable banking system that can support a modern economy and at protecting consumer rights, particularly with regard to retail banking.<sup>15</sup>

One of the most prominent changes is in monetary policy: in November 2019 the Central Bank was tasked with establishing an inflation-targeting regime. Starting 1 January 2020, the goal is to decrease the inflation rate from around 10% at the end of 2019 to 5% in 2023. This change aims to improve price stability in the Uzbek economy, thus reducing uncertainty.



The measures introduced to facilitate the shift in credit and monetary policy include — but are not limited to:

- ▶ The use of market instruments to influence the interest rates of the money markets, for example Central Bank bonds, overnight deposit regulations or credit auctions.

- ▶ The establishment of a system of macroeconomic analysis and forecasting in compliance with leading international practice to enhance the Central Bank's steering competency, accompanied by a communication policy that would provide an effective flow of information about the Central Bank's assessment of the economic situation and factors influencing inflation.

- ▶ The introduction of derivative instruments for managing interest and currency risks (swaps, options, futures).<sup>16</sup>

In the commercial banking sector, the Government of Uzbekistan's reforms aim to foster private investment activity, encouraging the transition from a state-led to market-based growth.

At the forefront of banking reform is a presidential decree from 12 May 2020, "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025."<sup>17</sup> This decree sets out detailed reform plans for the Uzbek banking sector as a roadmap for the next five years.<sup>18</sup>



## 40%

Asset management target in the banking system for state-owned banks for 2025

△ -45p.p. (2019: 85%)

A key goal of the reforms in this decree is to drastically reduce the role of the state in the banking sector. As of May 2020, the government had a stake in banks managing 87% of the capital and 85% of the assets in the banking system between them. By 2025, banks with government participation are projected to only manage 40% of total assets in the banking system. To achieve this goal, the government, which currently holds charter capital in 13 of 31 local banks, is planning to divest six of its current shareholdings in banks by 2025 to include: Ipoteka Bank, Aloqabank, Qishloq Qurilish Bank, Turonbank, Sanoat Qurilish Bank, and Asaka Bank, with the latter two being the second and third-largest banks in Uzbekistan



<sup>15</sup> Anon., Reforms of the Central Bank of Uzbekistan's Supervisory Duties, Dentons, 01/21/2020, 08/04/2020, <https://www.dentons.com/en/insights/alerts/2020/january/21/reforms-of-the-central-bank-of-uzbekistans-supervisory-duties>  
<sup>16</sup> Anon., Reforms of the Central Bank of Uzbekistan's Supervisory Duties, Dentons, 01/21/2020, 08/04/2020, <https://www.dentons.com/en/insights/alerts/2020/january/21/reforms-of-the-central-bank-of-uzbekistans-supervisory-duties>  
<sup>17</sup> On the Strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 Decree of the President of the Republic of Uzbekistan, №UP-5992, Data on adoption 12.05.2020, Data on entry into force 13.05.2020  
<sup>18</sup> Black Swan Consulting, Reforms of the banking system in Uzbekistan, 05/13/2020, 05/28/2020, <https://blackswan.uz/2020/05/13/reforms-of-the-banking-system-in-uzbekistan/>

respectively. The reorganization of these banks and subsequent sale of the government stakes to strategic investors will be conducted with the participation of international financial institutions including the International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB).



7

Number of Uzbek banks the government plans to have a stake in by 2025

△ -46% (2019: 13)

The Uzbek banking sector is also slowly opening up to foreign parties: in 2019, Kazakhstan’s Halyk Bank was the first private foreign lender to enter Uzbekistan and was joined in 2020 by TBC Bank from Georgia. Additional foreign investment in the banking sector is expected to emerge from the sale of government stakes as mentioned above.<sup>19</sup>

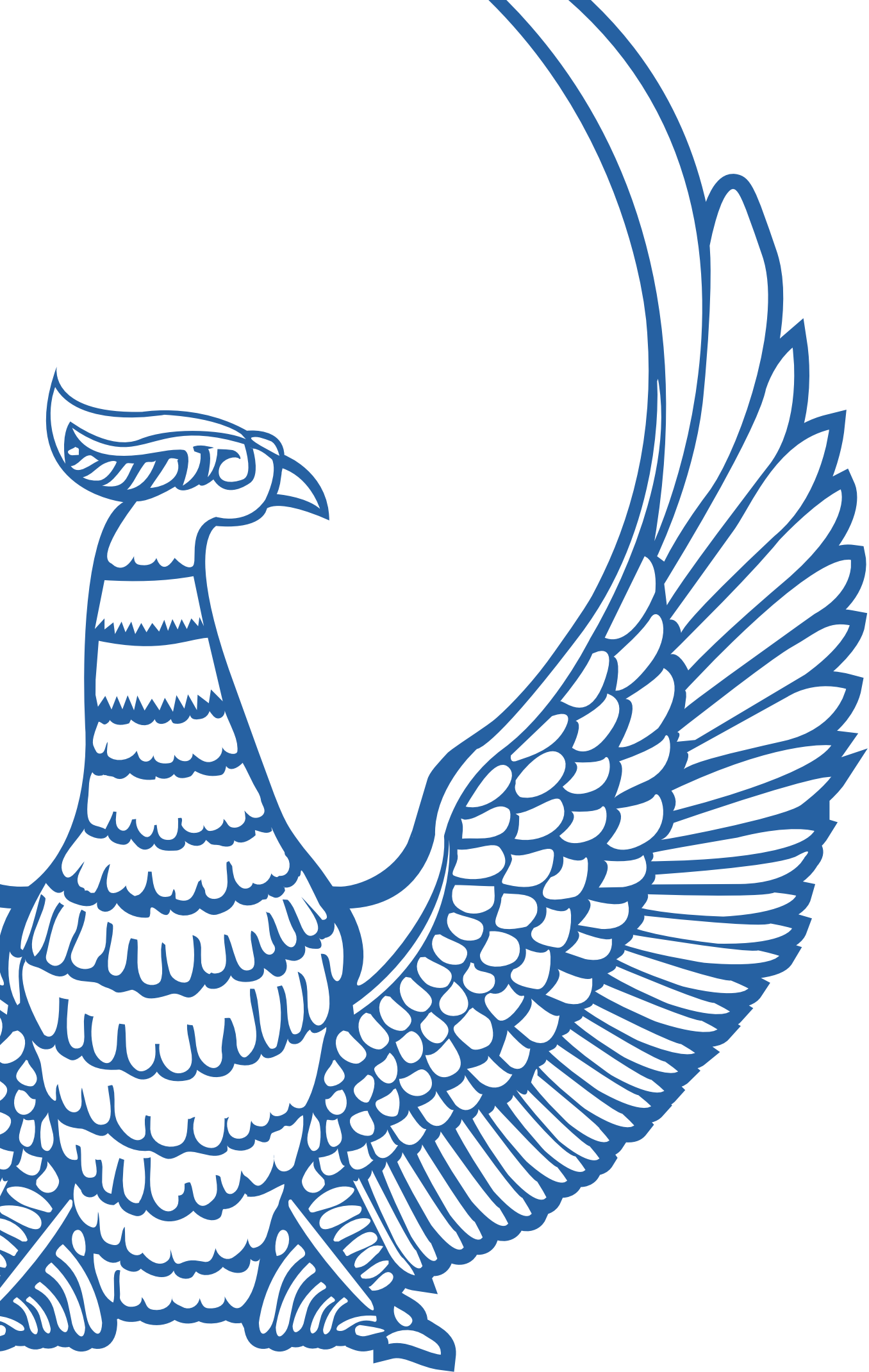
Adding to these fundamental shifts in the banking sector, the government is aiming to foster the development of modern forms of financial service providers. To this end, the decree from May 2020<sup>20</sup> on the reform of the banking system foresees the creation of a legal framework for the operation of Fintechs (financial services companies that apply digital technology to improve financial activities). Further legislative measures planned for 2020 include amendments to the rules for banks’ participation in the securities market. The amendments will ease the administrative burden for banks to issue bonds and other instruments and create the necessary legal framework to place banks’ securities in international capital markets. Simultaneously, regulatory supervision will be strengthened.

The government is also planning to underpin the structural and legal changes by facilitating the modernization and improvement of IT systems in the Uzbek banking sector. These efforts largely aim to increase the automation of banks’ data analysis and operation to ensure reliable, high-quality and easily auditable financial and banking services throughout Uzbekistan.



19 Anon., JSC Halyk Bank: Tenge Bank starts its operation in Uzbekistan, Börse Online, <https://www.boerse-online.de/nachrichten/aktien/jsc-halyk-bank-tenge-bank-starts-its-operations-in-uzbekistan-1028229133>

20 On the Strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 Decree of the President of the Republic of Uzbekistan, №UP-5992, Data on adoption 12.05.2020, Data on entry into force 13.05.2020



## Civil society and a strong legal system

- |     |                          |                     |
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| 6.2 | Ensuring legal certainty | <b>Page 42 – 50</b> |
| 6.3 | Turning laws into action | <b>Page 51 – 59</b> |
| 6.4 | Fostering privatization  | <b>Page 59 – 67</b> |

# 6. CIVIL SOCIETY AND A STRONG LEGAL SYSTEM

## 6.1 Advancing Transparency

As part of the President's Action Strategy, the large-scale reform agenda launched in February 2017, the government adopted a range of pieces of legislature to restructure and reform the judiciary, public administration, health and protection services, liberalize the economy and improve the security and foreign policy. The rationale behind this broad reform program is to align Uzbekistan with the international community and to create a prosperous and modern society. Political structures at all levels need to absorb the reforms to effect and support systemic transformation.

Naturally, this includes the issue of transparency in government affairs. The Government of Uzbekistan therefore has introduced measures to share information between citizens and government in innovative and transparent ways, enabling accountability of the government for shortcomings in both policymaking and the conduct of representatives of the state. This requires an increased openness of government action for citizens to observe, evaluate and participate themselves. One example of that is this report. The Government of Uzbekistan also employs digital technology to increase access for citizens: as described in this section, digital platforms are being built where citizens can voice concerns or get insight into ongoing decision making about policy. Another focus is the ongoing fight against corruption, and the finally there is of course the work to develop an independent media, which is willing and able to hold the government accountable.

### 6.1.A Sharing information to empower citizens and enable accountability

Enhancing accountability and integrity in government provides security and stability for everyone living and working in Uzbekistan. In an important step President Mirziyoyev openly recognized the failings of the previous administration.<sup>21</sup> The government is working to address the citizens' grievances about the performance of public officials and the government. Creating an environment that encourages public participation in policy-making and invites public scrutiny is an important step to achieve said goal and is crucial for the development of a vibrant and healthy society.

An important measure in creating this kind of transparency is the large-scale sharing of information and inviting people to enter into an active dialogue with their government. Seeking and receiving information is a right that can act as a safeguard against corruption, and increase trust in decision makers and public institutions. However, transparency is not only about making information available, but ensuring it can be easily accessed and understood by the population.

As one of the first measures affirming its dedication to more openness, the government set up a virtual office which allows citizens and businesses to raise concerns directly with the President either online or via telephone. These include complaints about corrupt local officials, which has increased the accountability of local officials and their responsiveness to the public. During the first two weeks of operations, the Virtual Office received 24,000 requests. The status of each complaint launched can be tracked. There is a clear record on which complaints are overdue, the quality of response from government agencies, and the user satisfaction with the response. This data can be used to increase bureaucratic efficiency and to kick-off broader changes in government administration.



# 24,000

Number of requests received through the government's new virtual office in the first two weeks of operation



<sup>21</sup> Anon. „It is big time the government bodies serve to the people, not vice versa“ - Shavkat Mirziyoyev, The Tashkent Times, 26/10/2016, <http://tashkenttimes.uz/economy/131>

<sup>22</sup> Decree of the President of the Republic of Uzbekistan on measures to further reform the judicial system, strengthening the guarantees of reliable protection of the rights and freedoms of citizens, №PF-4850, Date of adoption 21.10.2016, Date of entry into force 22.10.2016

<sup>23</sup> Institute for Security & Development Policy, Judicial and Governance Reform in Uzbekistan, 03/2018, 07/24/20, <https://isd.eu/publication/judicial-governance-reform-uzbekistan/>

guaranteeing the protection of citizen's rights and freedoms and measures to improve crime prevention and crime fighting while increasing public trust through various means of communication. For instance, with the help of the United States Agency for International Development and the United Nations Development Program, a new website was launched which, among other features, allows the public to view certain court trials across the country in real time online.

A final example of improved transparency concerns the work of tax authorities. A comprehensive reform program has been launched to strengthen public financial management and to improve the coverage, quality, and accessibility of fiscal reports. Solid progress has been achieved in this regard and more information on the use of public money is now being disclosed. This includes the changes to the tax system described in section 6.2 on legal certainty, reducing the number of taxes from 58 to 10 and streamlining the tax code. These changes make the Uzbek tax system easier to understand and thus more transparent.

### 6.1.B Transparent and participatory policy making

The foundation of any healthy democracy is openness and transparency in policy making and judicial decisions. Although Uzbekistan moved towards democratic reform after independence in 1991, there was a consistent lack of political opposition and a lack of accountability in policy making which have shown themselves to be hindrances to constructive dialogue and public participation in shaping the nation's politics. To make the government's work more transparent, a number of reforms were introduced which significantly transformed the structure and activities of the legislative branch of government.

In January 2019, President Mirziyoyev signed two decrees introducing significant changes to the structure and activities of the country's government ("On Principal Measures to Increase Responsibility of the Cabinet of Ministers for Effective Implementation of Strategic Objectives of Socio-Economic Development of the Country"<sup>24</sup> and the Resolution "On Implementation of a Qualitatively New System of Organizing the Work of the Government of the Republic of Uzbekistan"<sup>25</sup>). For instance, they determine that parliamentary approval is required for all candidates for positions of Deputy Prime Ministers, ministers and chairmen of state committees, strengthening the parliament within Uzbekistan's institutions of state.

The decrees further specify the major direction for improvement of government activities which includes increasing personal responsibility and accountability of members of government and heads of other executive authorities, enhancing the autonomy of ministries, state committees, and agencies in effective implementation of policy in certain areas. Moreover, the decrees set a strategic direction to actively reduce administrative impact on economic sectors further and dismantle excessive administrative regulation by transferring appropriate state functions to private entities in the future, thereby expanding market-based management systems. They also prescribe the assessment of activities of local executive authorities at all levels of government and the regular examination of the implementation status of reforms in specific areas.

Going forward, a number of legislative measures are being prepared aimed at further improving government structures and transparency, including legislation improving the system for the remuneration of officials and employees from public administration bodies.



24 Decree of the President of the Republic of Uzbekistan on priority measures to increase the responsibility of the Cabinet of Ministers of the Republic of Uzbekistan for the effectiveness of the implementation of strategic objectives of socio-economic development of the country, №PF-5644, Adopted 28.01.2019, Effective 30.01.2019

25 Resolution of the President of the Republic of Uzbekistan on the introduction of a qualitatively new system of work organization of the Government of the Republic of Uzbekistan, QPQ-4136, Date of adoption 28.01.2019, Date of entry into force 30.01.2019



# PARTICIPATION WELCOME!

## GOVERNMENT WEBSITES AS VEHICLES FOR PUBLIC POLICY EXCHANGE

Uzbekistan has implemented a number of measures to ensure the transparency of decisions made by the Government of Uzbekistan towards its citizens and business community as well as international third parties.

The legal transparency offensive of the Government of Uzbekistan under President Mirziyoyev was started by allowing a broad public discussion of the ambitious reform strategy of the government's Strategy of Action plan 2017-2021. Besides a media week in January 2017 dedicated to a thorough discussion of the Draft Strategy of Action plan, the public was invited to share their thoughts on the Draft on the website [strategy.regulation.gov.uz](http://strategy.regulation.gov.uz). This concept proved to be so successful as to warrant a broader application, extending to all ongoing legislative projects, ranging from decisions of hokims to presidential decrees and laws. Thus, to further increase the trust of the public in the legislative processes of the Government of Uzbekistan, public access has then been granted to multiple stages of the development of new legislation.

This starts with access to legislative drafts on the online portal [regulation.gov.uz](http://regulation.gov.uz), where every registered user has the possibility to add comments. The comments will be considered by the Ministry of Justice and the Cabinet of Ministers of the Republic of Uzbekistan. It is obligatory for those branches to indicate the results of consideration of the received proposals. Approved laws get published on the openly accessible website [lex.uz](http://lex.uz) in Uzbek and Russian, available in various download formats (Word and PDF). Progressively, laws are also being translated into English to make them more accessible to an international audience. Planned laws that didn't go into effect and were stopped can be viewed at <https://www.gov.uz/uz/regulations/repealedlex>.

The Government of Uzbekistan is also open to citizen initiatives proposing new or changed legislation. For this purpose, a participatory opportunity is provided in the form of the petition portal "Mening fikrim" ("My opinion") that can be accessed at [petition.gov.uz/ru](http://petition.gov.uz/ru). On this portal, the petitions that garner the most support are considered by the parliament, government or local council of people's deputies, when applicable. Since the creation of the portal in 2018, more than 3,900 petitions have been filed already. Three reforms have been passed as direct results of petitions launched on "Mening fikrim":

- ▶ Increasing penalties for animal cruelty<sup>26</sup>
- ▶ Reducing the cost of obtaining a permit for tinted windows of vehicles<sup>27</sup>
- ▶ Abolishing the requirement to issue a power of attorney for the right to use and drive vehicles between close relatives<sup>28</sup>



- 26 On introduction of amendments and additions to the Criminal Code of the Republic of Uzbekistan and the Code of the Republic of Uzbekistan on administrative responsibility of the Law of the Republic of Uzbekistan, RZRU-543, Data of adoption 28.05.2019, Data of entry into force 29.05.2019
- 27 Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on additional measures to regulate the use of vehicles with tinted (darkened) glass, №646, Date of adoption 02.08.2019, Date of entry into force 03.08.2019
- 28 On the fundamental reform of the notarial system in the Republic of Uzbekistan, Decree of the President of the Republic of Uzbekistan, №UP-5816, Data on the adoption 09.09.2019, Data on the entry into force 10.09.2019



### [regulation.gov.uz](http://regulation.gov.uz)

Access legislative drafts and  
add comments to them



### [lex.uz](http://lex.uz)

Browse through all  
approved laws in Uzbek and  
Russian



### [petition.gov.uz](http://petition.gov.uz)

Introduce or support  
petitions to the Uzbek  
government

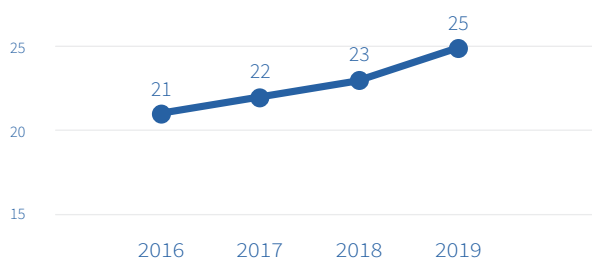


### 6.1.C Towards a healthier society: eliminating corruption

Corruption is dishonest and fraudulent conduct involving the abuse of entrusted power often with the aim of personal enrichment. Corruption, especially by government officials who are tasked with ensuring the well-being of whole nations, erodes trust, hinders economic development and weakens democracy. It also worsens inequality, social unrest and environmental crises. Exposing corruption and holding everyone involved responsible is a key element in the Uzbek reform agenda aimed at creating stability for economic growth and development. Creating a transparent system which invites public scrutiny is paramount to the objective of eradicating corruption. Transparency is all about knowing who, why, what, how and how much. It means shedding light on rules, plans, processes and actions. This system of checks and balances helps the public hold all power to account for the common good.<sup>29</sup>

Improving governance and anti-corruption mechanisms, and increasing the effectiveness of anti-corruption measures have always been on the agenda of the current government and have been defined in one of the five priority areas of Uzbekistan's Development Strategy. In early January 2017, the Anti-Corruption Law was adopted, followed by a number of State anti-corruption laws and programs.

#### Development of Uzbekistan's score in the Corruption Perception Index



In June 2020, the President approved a decree establishing an anti-corruption agency responsible for the formation and implementation of state policy to prevent and combat corruption within the country. This includes all levels of public administration, legal entities and banks with a state share in the authorized capital. The agency reports to the Uzbek President and is accountable to the Chambers of the Oliy Majlis. The main tasks of the agency are the implementation of an internal compliance control and internationally recognized instruments to prevent and detect corruption, and the analysis of the effectiveness of

these measures. Particular focus is given to the fields of public procurement, the use of budget funds, loans of international organizations and foreign states, and the sale of assets. To fulfill these duties, the agency has been equipped with broad authority to request, view, and assess all documentation related to corruption in these fields and thoroughly investigate all cases of suspected corruption in the public domain. In addition, the agency will be responsible for ensuring that Uzbekistan meets its international obligations regarding the implementation of measures to combat corruption. To this end the agency will work within the framework of the Anti-Corruption Network for Eastern and Central Europe based on the Istanbul Anti-corruption Action Plan for Economic Cooperation and Development as well as adhere to the provisions of the UN conventions against Corruption.

However, the above-mentioned measures are only the beginning: the government plans to introduce an electronic system to monitor and evaluate the effectiveness of public authorities and management in combating corruption. Another digital innovation will be an app which can be used to report instances of corruption to the anti-corruption agency. Moreover, laws are currently being drafted further defining the competencies and tasks of Uzbekistan's anti-corruption agency, on the anti-corruption expertise of legal acts and their drafts, and on the disclosure requirements of the income, property, and conflicts of interests of civil servants.

After decades without solid regulation and checks, the work of fully eliminating corruption in Uzbekistan can hardly be called complete. However, significant steps have been taken and progress is already clearly visible. In the interest of the country and its people it is not only important that the government increases its legislative efforts but that government, corporate entities and civil society work together to create a thriving democracy for the common good. Uzbekistan is determined to keep moving forward.

### 6.1.D The case of press freedom

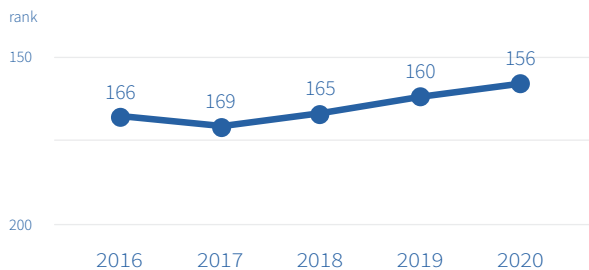
President Mirziyoyev's open criticism of public servants has had another important impact in Uzbekistan, namely that of encouraging the population including media outlets to also voice their own concerns publicly. While initially this process might have been limited to certain areas, it quickly included wider topics and included differentiated analyses. Ever since that point there has been a notably dynamic development in the media environment.



<sup>29</sup> OECD, Anti-corruption reforms in Uzbekistan, 03/21/19, 07/24/20, [https://www.oecd.org/corruption/acn/OECD-ACN-Uzbekistan-4th-Round\\_Monitoring-Report-2019-ENG.pdf](https://www.oecd.org/corruption/acn/OECD-ACN-Uzbekistan-4th-Round_Monitoring-Report-2019-ENG.pdf)

Uzbekistan has since continued to encourage a diverse media landscape and loosened previous restrictions. The government recognizes that in order to communicate and explain the reform processes it needs reliable and independent media. Therefore, media outlets that are independent, objective and thus credible in their reporting are essential to Uzbekistan's ability to continue the path of reform and development. The media landscape has diversified significantly, now including a variety of independent online news sources, blogs, and live broadcasts on television all of which include critical discussions of a wide range of issues such as unemployment, lack of housing, and government activities.

#### Development of Uzbekistan's position in the Press Freedom Ranking



The media landscape has significantly diversified already and more and more people participate in public discussions and dialogue. Naturally, a strong and diverse local and national media landscape takes time to emerge and cannot be implanted top-down.

The Government of Uzbekistan continues to work to support a free press and freedom of information across the Uzbek society. There are a number of areas in the realm of press and media which the government is set to further improve. This includes facilitating accreditation of media, especially foreign media. Moreover, further legislation needs to be introduced to liberate media in Uzbekistan which includes ensuring that all households in Uzbekistan have access to internet and thus a broader range of sources of information. The government recognizes that there is further work to be done to support the emergent independent local media sphere and ensure that journalists and bloggers feel comfortable to speak truth to power where necessary. It is committed to address any remaining shortcomings in this, as in other areas. At the same time, the government is committed to support the quality of Uzbek journalism and is working to prevent “fake news” from spreading widely.

The legal status and professional activities of representatives of foreign media in Uzbekistan are regulated by the Constitution of the Republic of Uzbekistan and multiple laws. Currently, journalists can either obtain a permanent accreditation which is valid for 2 years or a temporary one which is valid for 6 months. To apply for the accreditation, journalists have to submit a letter of application from the head of the interested foreign media organization addressed to the Minister of Foreign Affairs of the Republic of Uzbekistan. The letter has to include basic information about the media outlet, a CV and four photos of the applicant. In the past, the approval process for the journalistic accreditation took up to two months. To further support Uzbekistan's credibility, increase its transparency and expand the media coverage within the international community, the Government of Uzbekistan revised the process in 2019. By shortening the approval period to five days, Uzbekistan hopes to encourage foreign journalists to apply and report on the country's activities.

As an additional signal of the country's willingness to allow foreign media coverage, the Foreign Ministry also gave the British public broadcaster BBC permission to operate in Uzbekistan, lifted the online block from the BBC website and approved the accreditation for the BBC correspondent, Avazbek Takhirov after the revision of the process.

## 6.2 Ensuring legal certainty

Strong and fair laws form the foundation of a thriving, market-based economy and a strong civil society. Thus, the continuous development of a just and transparent legal system is a top priority for the Government of Uzbekistan. Such a legal system affects many areas of social and economic life and thus numerous projects are under way, reforming different aspects of regulation. The legal reforms that have been carried out in the last few years have positively affected a broad range of actors from both the economic and civil society spheres. The overarching direction is to create a modern regulatory system, which sets rules and ensures the proper functioning of the economy. Simultaneously, it leaves sufficient space for private organizations, for profit or not for profit, to find solutions to everyday problems and take their own decisions without undue interference. The first results of the reform process are promising. Since 2017, doing business in Uzbekistan has become a lot easier, while at the same time safeguarding workers' rights. Civil society actors have been assured more rights and freedoms, while giving them the opportunity to participate in the legislative processes.



The following describes a number of initiatives the government has taken to achieve these successes and to continue further on the same path. Economic reforms in the shape of collaboration with the international community, a new tax code, free economic zones and streamlined customs procedures are part of this, but also currency liberalization. Another part is improving legal education with the long-term goal of improving the judicial system and creating a clearer, codified process for the registration of new NGOs.

## 6.2.A Economic reforms

### International programs

The Government of Uzbekistan is cooperating with multiple transnational organizations to make sure that the intended reform process leads to laws that are in accordance with internationally accepted legal standards. In the domain of economic reform alone, Uzbekistan is participating in various programs, exchanges and consultations with experts from the OECD, the World Bank, UNCTAD, WCO, EBRD and others. Following is an overview of selected cooperation projects in the economic domain that Uzbekistan is currently participating in:

#### Organization for Economic Co-operation and Development (OECD):

- ▶ Application of OECD Indicators of Product Market Regulation (PMR): the OECD is currently in the process of measuring Uzbekistan according to its PMR indicators. According to the OECD, the PMR indicators, “measure the regulatory barriers to firm entry and competition in a broad range of key policy areas.” The overall PMR indicator for each country consists of 26 sub-indicators such as “Barriers to Domestic and Foreign Entry”, “Administrative Burden on Start-Ups” or “Complexity of Regulatory Procedures.”<sup>30</sup>
- ▶ FDI Regulatory Restrictiveness Index (FDI Index): the FDI Index is already including data about Uzbekistan. This index, “gages the restrictiveness of a country’s FDI rules by looking at the four main types of restrictions on FDI: foreign equity limitations; screening or approval mechanisms; restrictions on the employment of foreigners as key personnel; operational restrictions”. The score ranges from 0 (no restrictions) to 1 (hard restrictions). As of 2019, the total FDI Index value for Uzbekistan was 0.068, which was only slightly more restrictive than the OECD average of 0.06.<sup>31</sup>

- ▶ Territorial review of the Republic of Uzbekistan: currently, a comprehensive territorial review of the Republic of Uzbekistan is being performed by the OECD. With its territorial review, the OECD, “offers analysis and policy guidance to national and subnational governments seeking to strengthen territorial development policies and governance. These reviews are part of a larger body of OECD work on regional development that addresses the territorial dimension of a range of policy challenges, including governance, innovation, urban development and rural policy.”<sup>32</sup>

#### World Trade Organization (WTO):

- ▶ In 2017, President Mirziyoyev announced Uzbekistan’s intention of becoming a full member of the WTO, after the accession process was temporarily suspended in 2007. Two years later, the Uzbek government submitted more than 20 relevant documents regarding foreign trade issues to the WTO secretariat. In July 2020, a Working Group meeting on the inclusion of Uzbekistan in the WTO was held with the participation of more than 60 WTO member states, followed by bilateral negotiations with individual WTO member states on market access to goods and services.<sup>33</sup> Since then, the Government of Uzbekistan aims to conclude the accession process as soon as possible to foster the further integration of Uzbekistan into the global economic community and so continue to ensure rising welfare for its population.

#### United Nations (UN):

- ▶ Office of the High Commissioner for Human Rights (OHCHR): In 2020, Uzbekistan cooperated in the completion of the fifth periodic report of Uzbekistan. While the UN Human Rights committee, a sub-body of the OHCHR, therein concluded that some work still remained to be tackled by the Government of Uzbekistan, it lauded its legislative efforts in the fields of promoting equality between men and women, fighting corruption and ensuring a more effective and independent judiciary.<sup>34</sup>
- ▶ United Nations Human Rights Council (UNHRC): In October 2020, Uzbekistan was one of 15 newly elected states of the UNHRC in which a total of 47 UN member states participate for the worldwide promotion and protection of Human Rights around the world. The successful election to the Council for the next three years is a clear sign of the international recognition of Uzbekistan’s large-

30 OECD, Indicators of Product Market Regulation, 2020, 08/10/2020, <http://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>

31 OECD, Foreign Direct Investment Regulatory Restrictiveness Index, 2020, 08/10/2020, <https://goingdigital.oecd.org/en/indicator/74/>

32 OECD, OECD Territorial Reviews, 2020, 08/10/2020, [https://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-territorial-reviews\\_19900759](https://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-territorial-reviews_19900759)

33 WTO, Uzbekistan resumes WTO membership negotiations, 2020, [https://www.wto.org/english/news\\_e/news20\\_e/acc\\_uzb\\_07jul20\\_e.htm](https://www.wto.org/english/news_e/news20_e/acc_uzb_07jul20_e.htm)

34 OHCHR, UN Treaty Database, 2020, 08/10/2020, [https://tbineternet.ohchr.org/\\_layouts/15/treatybodyexternal/Download.aspx?symbolno=CCPR/C/UZB/CO/5&Lang=En](https://tbineternet.ohchr.org/_layouts/15/treatybodyexternal/Download.aspx?symbolno=CCPR/C/UZB/CO/5&Lang=En)



scale human rights reforms and serve as further encouragement to further foster improvements as much nationally as internationally.<sup>35</sup>

### World Customs Organization (WCO):

- ▶ Global Trade Facilitation Program (together with the State Secretariat for Economic Affairs of Switzerland): Uzbekistan is one of four countries that is a beneficiary of the current Global Trade Facilitation Program. During this 4-year program (2018 – 2022), the WCO helps the Uzbek Custom Administration with the, “implementation and application of international standards and best practices for the importation, exportation and transit of commercial goods. Additionally, the Program supports the strengthening of the organizational and technical capacities.”<sup>36</sup> Specific measures that apply to Uzbekistan include the identification of bottlenecks to trade via a time release study; the design and implementation of a risk based periodic commuting agreement (PCA) scheme; and the improvement of the national trade single window system.

### World Bank Group:

- ▶ Country Partnership Framework (CPF): The World Bank is cooperating with the Government of Uzbekistan using the Country Partnership (CPF) framework. The ongoing 5-year CPF for 2016-2020, “is being implemented to support the government’s reform agenda in the following priority areas: a sustainable transformation to a market economy; reform of state institutions and citizen engagement; investments in human capital; focusing on the development of the health and education sectors.”<sup>37</sup> A follow-up CPF with Uzbekistan for the coming years is already in preparation. With a portfolio in Uzbekistan that consists of 22 projects and amounts to as much as USD 4.14 billion, the World Bank’s program in Uzbekistan is one of the largest in the Europe and Central Asia region, second only to Turkey. These efforts, “support the government in implementing economic and institutional reforms that will help to modernize the agriculture, health, education, water supply and sanitation, energy, transport and social protection sectors, as well as promote urban and rural development.”<sup>38</sup>
- ▶ To identify areas for improvement, the World Bank orchestrates two diagnostic programs in Uzbekistan: The Systematic Country Diagnostic

(SCD) and the Public Expenditure Review (PER). The SCD: “looks at a range of issues in a particular country and seeks to identify barriers to and/or opportunities for sustainable poverty reduction and shared prosperity.”<sup>39</sup> The PER: “takes stock of fiscal developments and institutions and analyzes the key issues that bear on the level, composition, challenges and effectiveness of government spending and the stance of fiscal policy.”<sup>40</sup> Having been conducted for the first time since 2003, the most recent PER for Uzbekistan of 2019 contains many valuable recommendations for Uzbekistan to optimize state budgeting and spending.

Those collaborations have already made valuable contributions to major economic reforms in the past few years, specifically with regards to taxes, customs and currency liberalization, as will be highlighted in the following.

### Taxes

A key part of the government’s ongoing reforms is to make it easier for both domestic and foreign companies to do business in Uzbekistan. The first step was a comprehensive overhaul of the tax system resulting in a reformed tax code that went into effect on 1 January 2020. The tax system was dramatically simplified and the number of different taxes was reduced from 58 to 9.

Other measures in the area of taxes in the last few years involved a stimulation of foreign and domestic business activities by lowering key tax rates: Taxes for corporations and banks have been lowered, and complex obligatory corporate payments to social funds abolished.

The tax reductions have made the investment climate in Uzbekistan more attractive to both domestic and foreign investors. For example, the Dividend Tax was reduced from 10 % to 5 % for residents and the Property Tax from 5 % to 2 %. Not only investors but also consumers were impacted by the tax reductions. By reducing the VAT from 20 % to 15 % and the personal income tax to a single 12 % flat rate, their purchasing power was increased significantly. As a consequence, the Total Tax & Contribution Rate per the World Bank definition, sank significantly from a high of 99 % in 2011 to 31.6 % in 2019, resulting in a dramatically improved business environment for investors and consumers.

35 UNHRC, Uzbekistan elected to UN Human Rights Council for the period 2021-2023, 2020, <https://www.un.int/uzbekistan/news/uzbekistan-elected-un-human-rights-council-period-2021-2023>

36 World Customs Organization, SECO-WCO Global Trade Facilitation Program (GTFFP), 2020, 08/10/2020, [http://www.wcoomd.org/en/topics/capacity-building/activities-and-programmes/cooperation-programmes/seco\\_wco-gtffp.aspx](http://www.wcoomd.org/en/topics/capacity-building/activities-and-programmes/cooperation-programmes/seco_wco-gtffp.aspx)

37 World Bank, The World Bank in Uzbekistan – Strategy, 2020, 08/10/2020, <https://www.worldbank.org/en/country/uzbekistan/overview#strategy>

38 World Bank, The World Bank in Uzbekistan – Strategy, 2020, 08/10/2020, <https://www.worldbank.org/en/country/uzbekistan/overview#strategy>

39 World Bank, World Bank Group’s Systematic Country Diagnostic - Online Consultations, 2020, 08/10/2020, <https://consultations.worldbank.org/consultation/world-bank-groups-systematic-country-diagnostic-online-consultations>

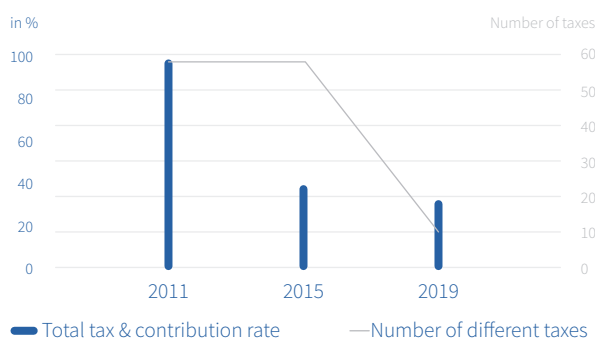
40 World Bank, Uzbekistan – Public Expenditure Review, 2020, 08/10/2020, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/471601582557360839/uzbekistan-public-expenditure-review>



## Development of key tax categories

	2018	2020
Corporate income tax		
General rate	14%	15%
Commercial banks	22%	20%
VAT	20%	15%
Dividend tax	10%	5%
Personal income tax	7.5% – 22.5%	12%
Social payments	25% (15% for SME)	12%
Property tax	5%	2%
Social payments to pension fund	8%	0%
Corporate payments to other funds	3.2%	0%

## Development of the total tax and contribution rate



- ▶ **Tourism:** Free tourism zone Charvak's main attraction is Lake Charvak which features the erection of cultural, recreational and entertainment facilities and general tourism infrastructure such as cafés, restaurants, transportation services and other facilities for visitors.
- ▶ **Agricultural:** The free agricultural zone Bukhoro-Agro fosters the creation of modern, energy-efficient greenhouse farms that use advanced hydroponics technology and serves as a role model for future agricultural production in Uzbekistan

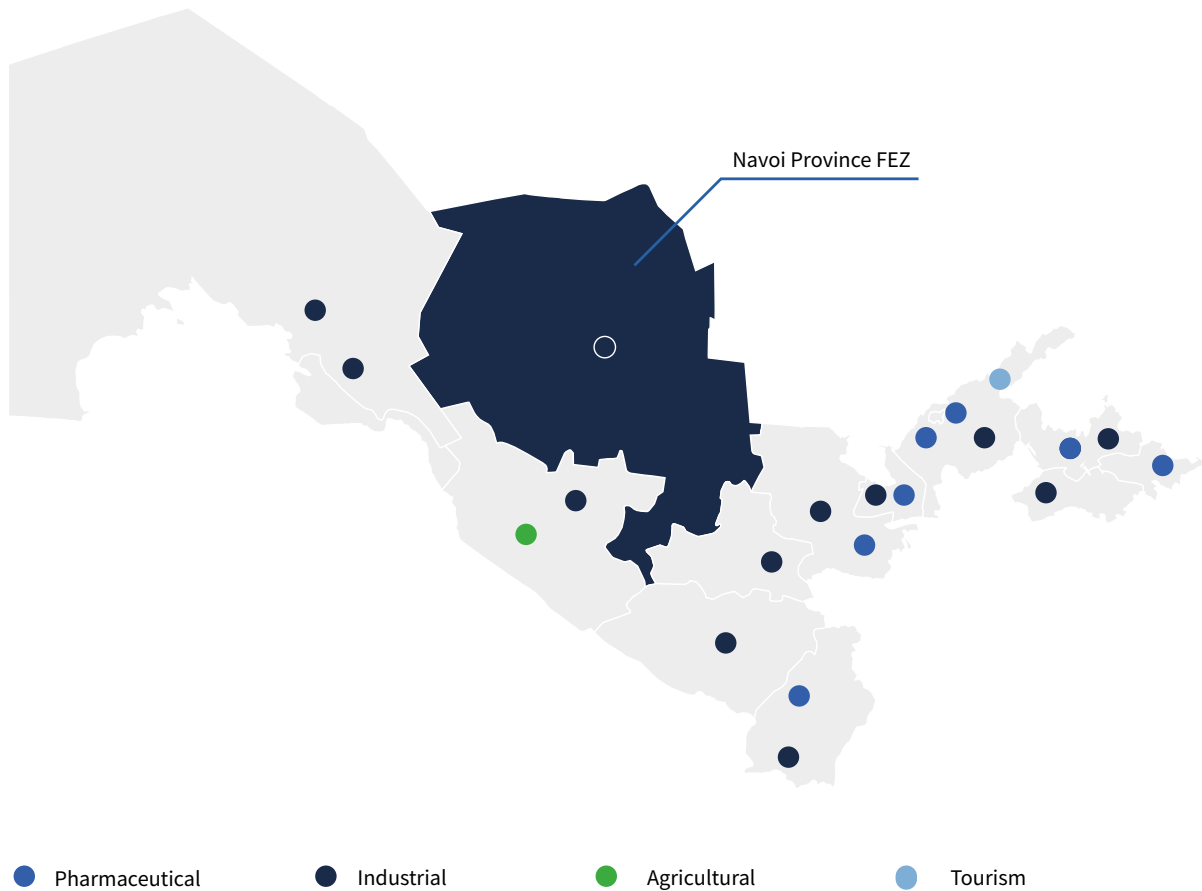
Targeted measures were also undertaken to particularly incentivize foreign investments and help accelerate economic development. Companies that make investments at defined levels are exempt from paying taxes for multiple years, and customs duty exemptions are granted on property imports for use within the same entity. Tax, duty exemption and bureaucratic regulations are even more attractive when investing in one of the currently 21 free economic zones (FEZ) in Uzbekistan where economic growth is fostered according to the zone's specialization (see Map or visit <https://sez.gov.uz/ru> for a full list with detailed information).<sup>41</sup> The FEZ are:

- ▶ **Industrial:** The twelve general industrial FEZs promote all kinds of industrial (production) activities
- ▶ **Pharmaceutical:** The seven pharmaceutical FEZs are focused on subsidizing the production of medicines and medical equipment



<sup>41</sup> Special Economic Zones of Uzbekistan (SEZ), Ergebnisse der Aktivitäten der Freihandelszonen zum 1. Mai 2020, 05/01/2020, 08/10/2020, <https://translate.google.com/translate?depth=1&hl=de&rurl=translate.google.com&sl=ru&t=de&u=https://sez.gov.uz/ru>

## Free Economic Zones in Uzbekistan by type



The story of free economic zones in Uzbekistan began in 2008, when the first one was founded in the Karamin district of the Navoi region. The original zone is located close to the Navoi International Airport, one of the largest air cargo terminals in Central Asia. Today it is home to almost 30 national and international companies whose production ranges from automobile components to heating boilers, mobile phones or even cosmetics. In 2016, FDI intelligence, a sub-branch of the British newspaper Financial Times, named the Navoi free economic zone the “Free Zone of the Year 2016” in Central Asia, commending its “one-stop shop service alongside a specialist investor relations department“. Additionally, a “financial center is located in the zone, providing investors with access to preferable rates on bank loans.”<sup>42</sup> After proving to be a successful venture, the Navoi free economic zone was expanded by decree of President Mirziyoyev in May 2019 to cover the entire Navoi region until at least 2029. This decision is expected to boost the economic development of the region by facilitating investor access and business activity in

a region that is rich in raw materials like rare metals and minerals and already is an important center for the mining, chemical and energy industries. The extension of the Navoi free economic zone is intended to help the region thrive by promoting innovative, high-tech, export-oriented and import-substituting projects as well as foreign investments.

The legal certainty and attractive conditions companies can enjoy in Navoi and the 20 other FEZ’s of Uzbekistan are therefore a key steppingstone towards the production of higher value-added products and services in Uzbekistan. The economic reforms that are already in place will accelerate the development of the Uzbek economy in the years to come and help generate employment in Uzbekistan while helping the GDP grow by 6% in 2020 and 7% in 2021 (pre-Covid-19 outlook). The impact of the Covid-19 pandemic has reduced growth prospects somewhat, with the World Bank forecasting GDP growth of 1.5% in 2020, rebounding to 6.6% in 2021.<sup>43</sup>



<sup>42</sup> Mullan, Cathy, Global Free Zones of the Year 2016, fDi intelligence, 10/10/2016, 08/10/2020, <https://www.fdiintelligence.com/article/67162>

<sup>43</sup> World Bank, Global Economic Prospects, June 2020. Washington, DC, 2020: World Bank. DOI: 10.1596/978-1-4648-1553-9



This growth will further serve to make up for the cost of the lowered tax rates. Also, at only 29.4% (as of 1 January 2019), the public debt of Uzbekistan is still in a very moderate range compared to other countries.<sup>44</sup> Also, the World Bank states in its most recent Public Expenditure Review for Uzbekistan that, “Uzbekistan collects more in revenues than lower middle-income countries on average and even more than many highly taxed OECD countries. Ambitious tax reforms in 2019 has not resulted in lower revenues, providing a good financial cushion for the authorities to start restructuring SOEs and bolstering social support to individuals that lose jobs in the process.”<sup>45</sup>

### Customs

Not only has the government worked to make doing business in Uzbekistan easier, but also importing and exporting goods to and from Uzbekistan. In June 2018, a resolution signed by the President of Uzbekistan cut custom duty rates by half, applied zero import duty rates to 3,550 products and zero excise taxes to 1,122 products.

To further boost Uzbek exports, today, the Export Promotion Agency under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan covers the costs associated with the introduction of international standardization and certification systems for exporters. Financial assistance is also provided to exporters for conducting presentations and advertising campaigns on foreign markets, participation in business seminars, trainings, trade missions and business forums and exhibitions abroad.

The Agency further reimburses part of the transportation costs and the costs associated with the issuance of the necessary permits and certificates, provides compensation for insurance premiums when exporters use insurance services as collateral.

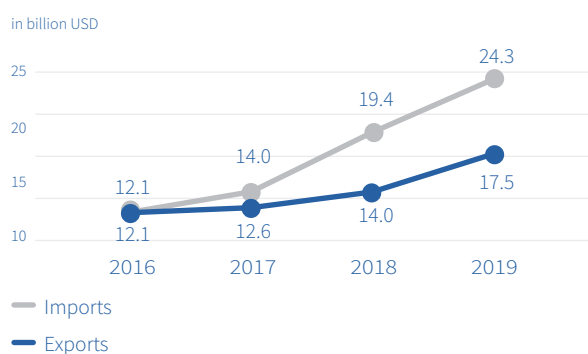
At the same time, the Agency allocates financial resources to commercial banks for export-related trade operations and pre-export financing loans.

Apart from financial measures, imports and exports have been made easier by reducing the bureaucratic burden for international trade. The amount of documentation necessary for export and import operations has been greatly reduced, with a special emphasis on eliminating redundant documentation. Also, a comprehensive information portal for

exporting and importing enterprises has been established at [www.singlewindow.uz](http://www.singlewindow.uz).

By 2019, the first benefits of export and import reform became visible already. Compared to 2015, Uzbek imports have grown by 25% to USD 24.3 billion and exports by 28% to USD 17.9 billion. This shows that Uzbekistan has become a reliable and attractive trading partner for companies and countries around the world. Being part of the Commonwealth of Independent States (CIS) Free Trade Zone, Uzbek companies enjoy free trade access that spans over 10 countries and encloses 275 million people. To further strengthen Uzbekistan’s foreign trade, the government is currently in promising talks with the WTO to join the organization. Negotiations for Uzbekistan to join had been stalled since the previous round of talks in ended in 2005.

### Development of imports and exports



### 6.2.B Currency liberalization

Two key steps were made towards currency liberalization. In September 2017, the President issued the decree “On priority measures for the liberalization of monetary policy,” making it possible for legal entities and individuals to exchange currency freely. This reform was followed up in 2019, when the central bank of Uzbekistan removed the 5% limit on daily exchange rate fluctuations and allowed for the sale of foreign currency by commercial banks for purposes other than business or tourism travel, including in the form of cash.

A liberalized currency more accurately reflects the market demand for Uzbekistan’s currency and allows foreign investors, as well as ordinary citizens, to transfer their funds more easily across currency borders. It is expected that currency liberalization will make Uzbekistan more attractive for foreign investors



<sup>44</sup> Citizens’ Budget (2019)

<sup>45</sup> Izvorski, I, Trushin, E., Ihsan, A., Appiah-Koranteng, A., Varoudakis, A., Philipsen, F., Hawkesworth, I., Islam, R., James, S., Zorya, S., Andalou, E., Teixeira, J., Karakulah, K., Uzbekistan Public Expenditure Review 2019, World Bank, accessed on 05/08/2020, <http://documents1.worldbank.org/curated/en/47160158257360839/pdf/Uzbekistan-Public-Expenditure-Review.pdf>

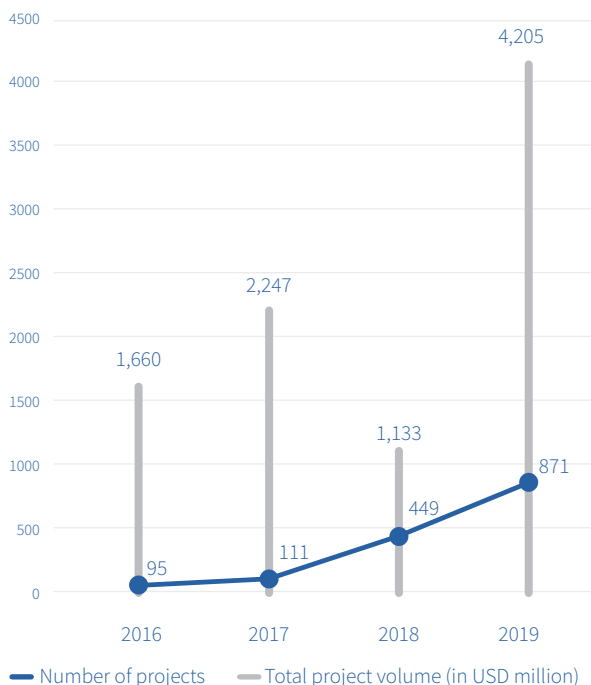
seeking to use the opportunities opening up in the course of the current reform program. Uzbekistan would thus increase its ability to make use of foreign investment to fund the economic development required to improve the lives of its citizens.

### 6.2.C Visible economic progress

As a result of the reform process, Foreign Direct Investments (FDI) have almost quadrupled in 2019 and reached USD 4.2 billion, invested into 871 projects (2018: USD 1.1 billion invested into 449 projects). These figures are exclusive of intangible investments such as transfers of know-how and on the job training that benefit the Uzbek economy and workforce even beyond the immediate lifespan of the respective projects.

International Organizations are starting to see economic progress, too. The European Bank for Reconstruction and Development (EBRD), for example, notes Uzbekistan's reform measures towards greater exchange rate flexibility, privatization of state-owned enterprises and a simplified tax system in its transition report 2019-2020.<sup>46</sup>

#### Number and volume of FDI projects in Uzbekistan



### 6.2.D Improving judicial education

Meanwhile, the strengthening of the judicial system in Uzbekistan also takes place at the roots: the judicial education system. In a series of presidential decrees dating back to 2017 measures were taken to both increase higher education standards in judicial education and foster the internationalization. Most notably, the Tashkent State University of Law (TSUL), the country's largest law school, has improved its educational profile, and established partnerships and collaborations with more than 40 foreign universities and international organizations from all over the world. The ambitious plan for the Tashkent State University of Law is to become a member of the top 1,000 internationally recognized universities in the QS World University Rankings. In this process, the TSUL has also become a full member of international associations of legal scholars and law schools such as the International Association of Universities (IAU), International Association of Law Schools (IALS) and the European Law Faculties Association (ELFA). Joining these associations allows the Tashkent State University of Law to bring legal education and science to a higher level by improving curricula and fostering scientific exchange. Also, the goal remains to effectively implement the European Credit Transfer and Accumulation System (ECTS) to further align the university's education with international standards.



**40**

Number of educatory cooperations of the Tashkent State University of Law

Meanwhile, additional law faculties are set to be established. On 29 April 2020, the presidential decree „On additional measures to radically improve legal education and science in the Republic of Uzbekistan“ was adopted, clearing the way for the establishment of law faculties at the Samarkand, Namangan and Termez State Universities.<sup>47</sup>



<sup>46</sup> EBRD, Transition Report 2019-20 Better Governance, Better Economies [online], European Bank for Reconstruction and Development, 19/11/19, accessed 04/08/20, <https://www.ebrd.com/news/publications/transition-report/transition-report-201920-better-governance-better-economies.html>

<sup>47</sup> TSUL, The Center of Legal Initiatives and Innovations, 07/24/20, <https://tsul.uz/en/structure/centres/the-center-of-legal-initiatives-and-innovations>



## Worldwide Governance Indicators 2019 (World Bank)

### Voice and Accountability

Percentile Rank*	Country	Change
33.5	Kyrgyzstan	▼
14.8	Kazakhstan	▼
<b>6.9</b>	<b>Uzbekistan</b>	▲
3.4	Tajikistan	▼
1.0	Turkmenistan	○

### Rule of Law

Percentile Rank*	Country	Change
36.1	Kazakhstan	▲
19.2	Kyrgyzstan	▲
<b>14.4</b>	<b>Uzbekistan</b>	▲
8.7	Tajikistan	▲
6.7	Turkmenistan	▲

### Regulatory Quality

Percentile Rank*	Country	Change
61.1	Kazakhstan	▲
38.5	Kyrgyzstan	▲
<b>13.0</b>	<b>Uzbekistan</b>	▲
12.0	Tajikistan	▼
2.9	Turkmenistan	○

### Control of Corruption

Percentile Rank*	Country	Change
43.8	Kazakhstan	▲
17.3	Kyrgyzstan	▲
<b>14.4</b>	<b>Uzbekistan</b>	▲
9.1	Tajikistan	▲
3.8	Turkmenistan	▼

### Government Effectiveness

Percentile Rank*	Country	Change
57.7	Kazakhstan	▲
<b>34.1</b>	<b>Uzbekistan</b>	▲
25.0	Kyrgyzstan	▼
14.4	Tajikistan	▲
11.1	Turkmenistan	▼

### Political Stability and Absence of Violence/Terrorism

Percentile Rank*	Country	Change
45.7	Kazakhstan	▲
44.8	Turkmenistan	▼
<b>36.2</b>	<b>Uzbekistan</b>	▼
30.0	Kyrgyzstan	▲
20.0	Tajikistan	▲

\* indicates rank of country among all countries in the world.  
1 corresponds to the lowest rank and 100 to the highest.



# CIVIL SOCIETY AT WORK

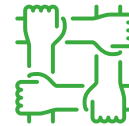
## THE MONITORING EFFORTS OF THE HUMANITARIAN LEGAL CENTER

A specific area of interest for the Government of Uzbekistan when it comes to legal reform is the NGO sector. The government welcomes the participation of civil society actors in making life for the Uzbek people better. This is highlighted by the efforts of the Government of Uzbekistan to make the registration and operation of NGOs in Uzbekistan easier. As a first result of this process, the number of NGOs in Uzbekistan has continuously risen in the recent years. While in 1991, the year of Uzbekistan's independence, only 100 NGOs were registered in Uzbekistan, the number of registered NGOs today amounts to over 10,000. Over the past two years, over 95% of all NGO applications were accepted and a total of 1,312 new NGOs were registered in Uzbekistan. To further improve the legal situation of NGOs in Uzbekistan, the government is currently working on a new NGO code.

A field of interest where NGOs can and do play an important role is the monitoring of the annual cotton harvest in Uzbekistan. One exemplary organization in this regard is the Humanitarian Legal Center (HLC), led by Uzbek human rights advocate Shukrat Ganiev. The HLC started monitoring the cotton harvest for the first time in 2000. Since 2015, the organization is cooperating with the ILO in Uzbekistan, contributing to the ILO's Third-Party Monitoring project during the cotton harvests. HLC's information is regularly presented in monitoring reports of the UN OHCHR, the U.S. State Department and the EU. While not yet officially registered as an NGO, the HLC monitoring volunteers have recently been recognized by the Uzbek Ministry of Labor and Employment as "National Experts on Forced Labor."

Each volunteer has to pass tests for knowledge of both the International Conventions of ILO and the requirements of the national legislation of the Republic of Uzbekistan before being allowed as an HLC cotton harvest observer. Volunteers are equipped with questionnaires for cotton employers and employees, asking respondents about ethics and safety issues. Furthermore, they make observations on circumstantial conditions like accommodation, medical care and transportation of the workers. Each volunteer receives the exact coordinates of the fields to be visited every morning as they start their tour, ensuring that each monitoring is carried out without unannounced. The coordinates, as well as survey results, are transmitted through an encrypted connection from tablets to a central server, to ensure data security as well as anonymity of respondents. The data collected is fed directly into the monitoring of the ILO, where it is processed, analyzed and stored according to international standards.

Furthermore, the volunteers of the HLC were raising awareness in the field by providing information and advice to workers during the cotton harvest. The HLC distributed various booklets that explain the rights of cotton pickers and provide them with information on where to turn to in case of complaints.



**10,500**

Number of registered NGOs  
in Uzbekistan in 2019  
△ +33% (2014: 7,900)



**95%**

Acceptance rate of all NGO  
applications in 2018 and  
2019 (1,312 new NGOs  
registered in total)



**15**

Number of independent  
monitoring groups coordinated  
by the Humanitarian Legal Center  
during the 2019 cotton harvest

## International partnerships for legal education

Partnerships with acclaimed international organizations are an important way for Uzbekistan to accelerate the improvement of the existing legal system. For example, in a joint program with the United Nations Development Program (UNDP) and the United States Agency for International Development (USAID), the Supreme Court of the Republic of Uzbekistan is currently working to achieve improvements in multiple regards, among them improving public knowledge of the Uzbek court system; better training of judges, lawyers and court personnel; and improving several legal procedure codes.<sup>48</sup> Similar goals are being pursued by cooperating with the Germany-based Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Organization for Security and Co-operation in Europe (OSCE), particularly on public awareness projects for topics ranging from rule of law and anti-corruption and with capacity building for law enforcement and members of the judicial system.<sup>49</sup> Another cooperation with the OSCE focuses on economic justice. Here, the OSCE's Project Coordinator works closely with Uzbek authorities to curb money laundering, fight against corruption and reduce monopolies in Uzbekistan's economy, among other things.<sup>50</sup>

### 6.2.E Uzbekistan's governance in international rankings

The first results of the ongoing legal reform process in Uzbekistan have already led to improvements in several key rankings of international organizations like the World Justice Project, Transparency International and the World Bank. In the Corruption Perception Index (CPI) of Transparency International, for example, Uzbekistan has been able to improve by 8 points from 2012 (17 points) to 2019 (25 Points), being one of the countries that improved the most in that timeframe.<sup>51</sup> A very positive trend can also be seen in the development of the Worldwide Governance Indicators of the World Bank, where Uzbekistan sported its best values in multiple indicators since 1996. Specifically, the indicators "Rule of Law", "Regulatory Quality" and "Voice and Accountability" have increased significantly in the past few years.<sup>52</sup> This shows that Uzbekistan is on the right path and serves as a great motivation to continue on the taken reform path.



# 25

Points in the Corruption Perception Index  
2019

△ +8 (2012: 17)



48 UNDP, Rule of law partnership in Uzbekistan, 08/11/2020, <https://www.undp.org/content/uzbekistan/en/home/projects/rule-of-law-partnership-in-uzbekistan.html>

49 GIZ, Promotion of the Rule of Law in Central Asia, 08/11/2020, <https://www.giz.de/en/worldwide/14355.html>

50 OSCE, Good Governance, 08/11/2020, <https://www.osce.org/project-coordinator-in-uzbekistan/106124>

51 Transparency International, CPI 2019: Statistisch signifikante Veränderungen seit dem Jahr 2012, 2019, 08/11/2020, <https://www.transparency.de/cpi/cpi-2019/cpi-2019-statistisch-signifikante-veraenderungen/>

52 World Bank, Worldwide Governance Indicators, 08/11/2020, <https://info.worldbank.org/governance/wgi/Home/Reports>

## 6.3 Turning laws into action

While a reform process to change old legislation new and better laws is important, written laws without proper enforcement don't lead to lasting positive change. The adaptation to new laws and regulations takes time as government officials and the Uzbek society have to learn and understand new rules and their practical implementation. An improved understanding and implementation of rules by civil servants mitigates the risk of arbitrary decisions, corruption and lack of well-trained legal practitioners. An informed and empowered citizenry and business community has the wherewithal to hold the public administration to account.

As a consequence, the build-up of proper measures to turn Uzbekistan's reforms into action has been a key focus of the Government of Uzbekistan over the last few years. For this purpose, a double-tracked approach is being used. The first track consists of raising awareness levels for both officials and the population regarding their new rights and duties, including the promotion of reporting mechanisms for complaints about violations of the law. The second track aims at the proper enforcement of existing laws by establishing proper punishments, ensuring effective prosecution and building up diligent oversight structures.

Those two tracks work together to foster positive change and form a crucial part of the government's reform agenda. How crucial can be seen by the extensive time commitments made by the President, Prime Minister and Deputy Prime Minister, as well as the Ministers. The top leadership personnel travel the country extensively and make numerous visits to the regions to meet regional and local officials. The goal is to get these officials fully on board with the central reform agenda and the high pace of change set by national ministries and agencies. The government leadership know that the buy-in of local officials tasked with implementing reforms on the ground is crucial to effecting real change for Uzbeks.

Simultaneously, those who violate the law must face a real prospect of detection and prosecution in order for criminal or administrative liabilities written into legal text to carry real weight. Enforcement requires the build-up or reform of often large and complex institutions, in particular where individual violations are difficult to detect, for example because victims may not feel empowered to speak out. In this arena too, the Government of Uzbekistan is making efforts to ensure victims have a way to get redress for violations against them.

The efforts to address these challenges are complex and manifold. One example for each area, awareness-raising and enforcement, will show how awareness campaigns aimed at improving implementation of labor rights reforms in the cotton harvest have been implemented. The second example details the efforts undertaken to build up the State Labor Inspectorate, improving the ability to investigate and prosecute violations of labor law, including cases of forced labor across the economy of Uzbekistan.

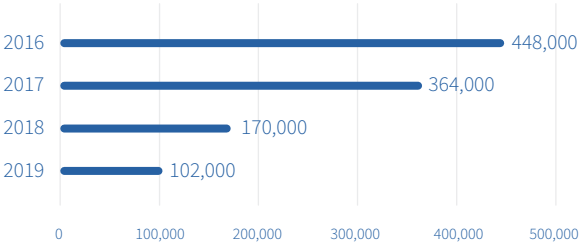
6.3.A The reform status in the cotton sector

The annual cotton-picking season is a tradition that has its roots in Soviet times and that involves millions of workers, thus changes do not happen overnight and at the same pace across all locations. However, the use of forced labor during the cotton harvest, which was widespread in Uzbekistan in the past, has been significantly reduced since President Mirziyoyev took office. A series of laws, as described in the previous chapter, laid the groundwork for this development that are expected to quickly lead to a complete eradication of forced labor in the Uzbek cotton harvest. According to the ILO, the amount of cotton pickers in conditions of forced labor has decreased by more than 87 % from 2016 (448,000) to 2019 (102,000). Furthermore, in their latest Third-Party Monitoring Report 2019, the ILO had found no systemic and systematic use of child labor in the cotton harvest in Uzbekistan, and also no systematic use of forced labor. The main problem why a certain proportion of forced labor still persisted during the cotton harvest 2019 is, according to the ILO, that „legacy systems conducive to the exaction of forced labor in agriculture have not yet been fully dismantled“. This dismantling is the very purpose of the full-fledged awareness-campaign the Government of Uzbekistan has brought into life to make farmers, cotton pickers and local officials aware of the legal reforms and new rights and duties that come with it, including the punishable offense of employing cotton pickers in conditions of child or forced labor.

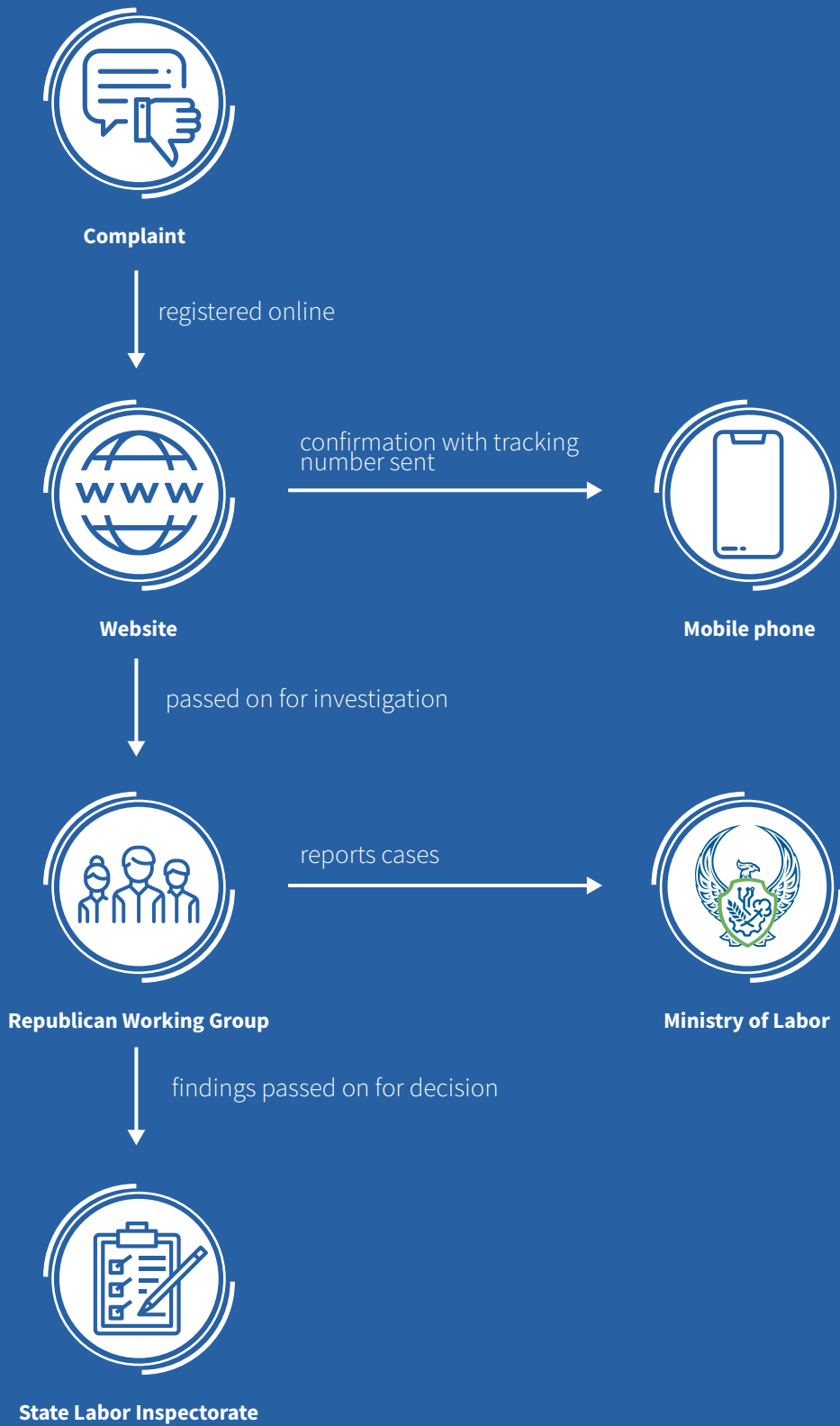
6.3.B Making the law known: raising awareness

In 2018, the Uzbek Ministry of Employment and Labor Relations started an elaborate awareness campaign regarding forced labor during the cotton-picking season that consisted of various communication channels and measures. The goal was to strengthen workers’ knowledge about their rights, in particular the recent changes to labor-market legislation. Among other things, 400 large-format banners were hung up across the country, 100 thousand flyers distributed and 3 public press conferences held on the topic in different regions of Uzbekistan. Furthermore, a video titled „On the Eradication of Forced Labor“ was produced and broadcast via the official channels. In 2019 the awareness campaign intensified. For instance, the Government of Uzbekistan published a video on their official Facebook page advertising the official channels to report instances of forced labor. The number of banners across the country increased to 600 while the distributed flyers was doubled.

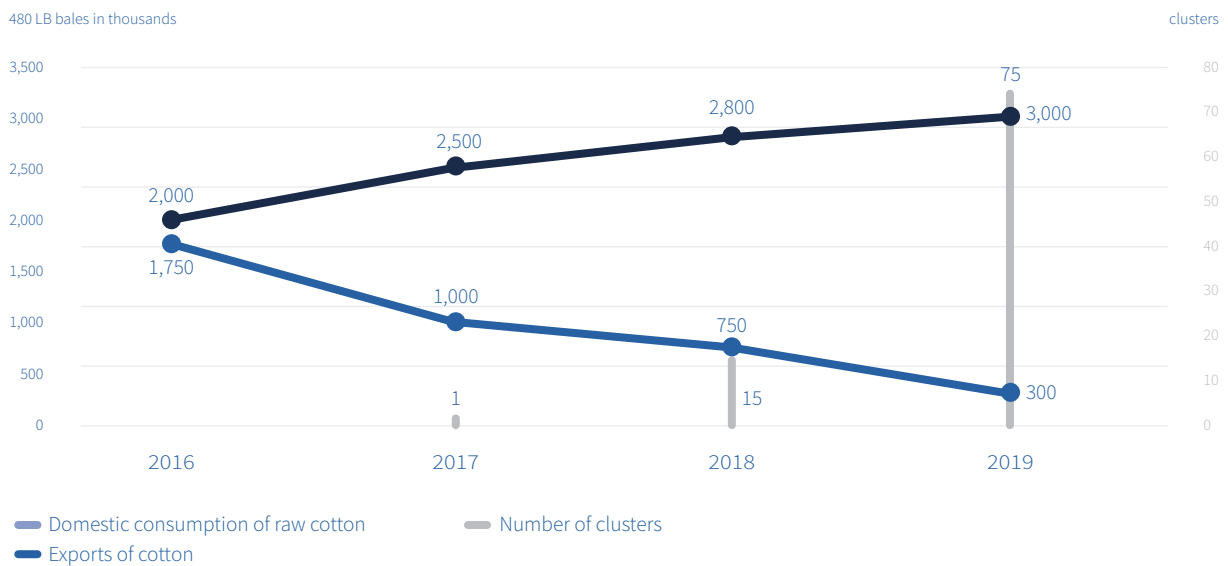
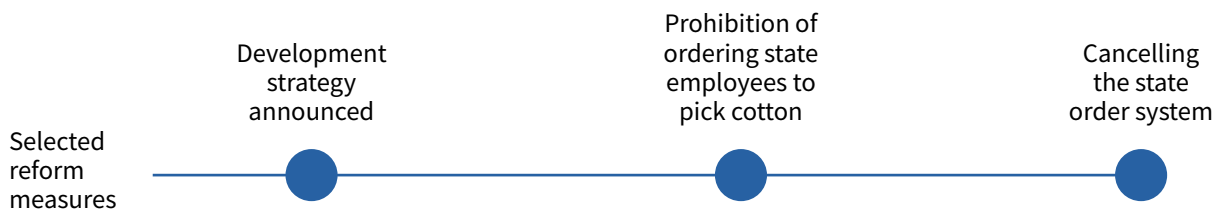
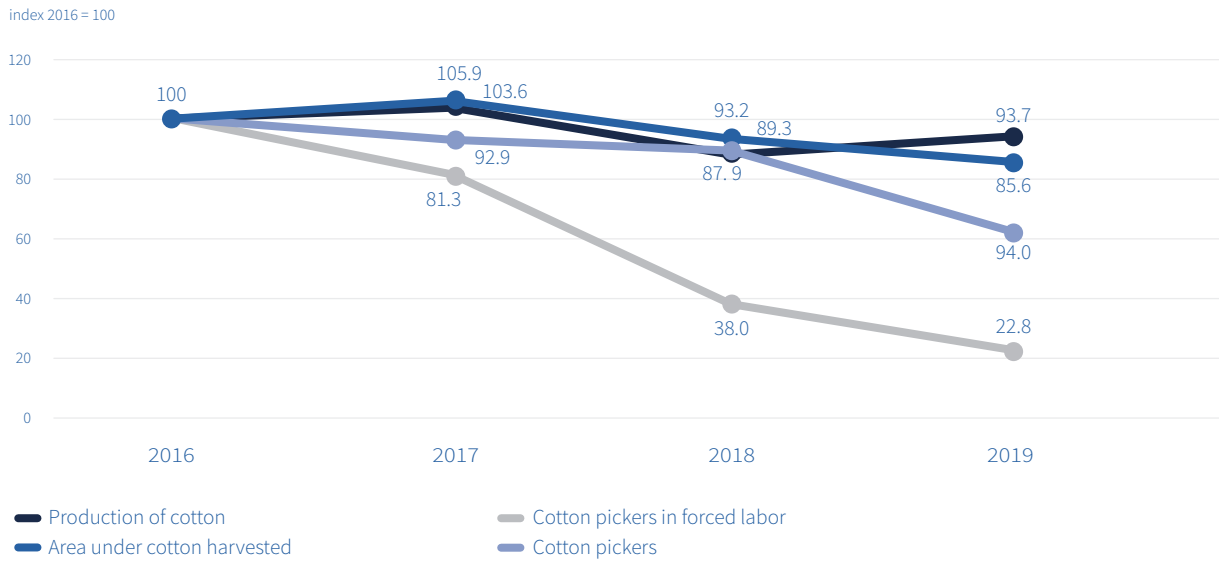
Development of the number of cotton pickers in conditions of forced labor



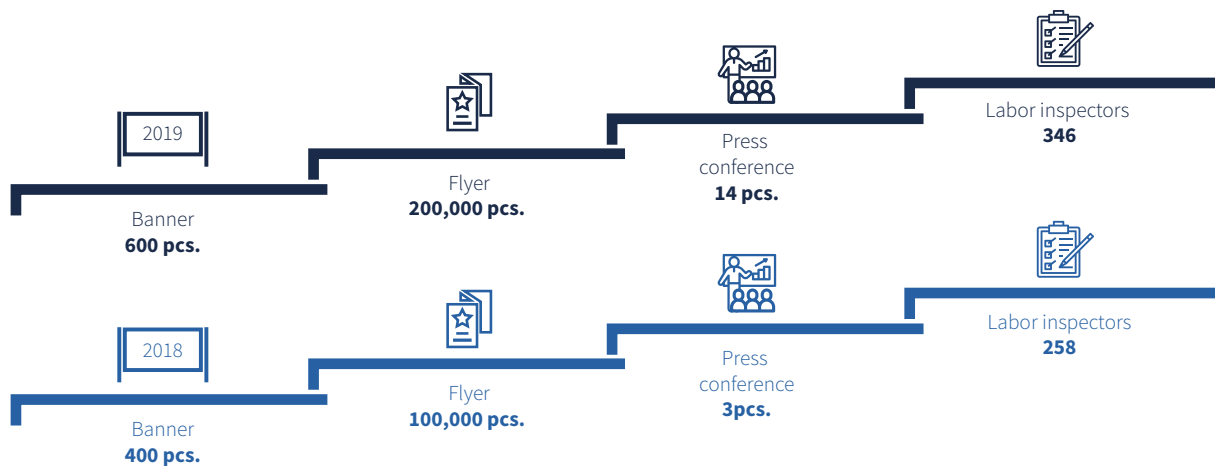
# PROCESS OF COMPLAINTS



## Overview of cotton sector reforms and developments



## Overview of forced labor awareness measures



Simultaneously, various reporting mechanisms for violations against existing laws during the cotton harvest were established. Complaints can be filed via the labor ministry's website at [www.dmi.mehnat.uz](http://www.dmi.mehnat.uz), via telephone calling the hotline 1176 or via a special Telegram-channel "@mehnatuquq\_bot". All services can be used anonymously with the option for applicants to hide their personal data.



# 18,153

Number of forced labor cases prosecuted in 2019

96% of reported cases (18,857)

All complaints via the website [dmi.mehnat.uz](http://dmi.mehnat.uz) are registered electronically on the website. A confirmation of receipt is sent to the applicant's mobile phone, as well as a specified code to track the status of his complaint, e.g. where it is being processed right now and what measures are being taken to deal with it.

When a complaint on forced labor is received, the Republican Working Group, led by the Federation of Trade Unions of Uzbekistan, and regional labor inspectors initiate an investigation, during which victims and witnesses are questioned. All cases are also being reported to the Ministry of Labor. The evidence gathered is then examined by the State Labor Inspectorate, where the Chief State Labor Inspectorate decides about appropriate measures. The investigation as a whole can take between 15 and 60 days. In 2019, a total of 18,857 violations in the cotton sector were reported to the Ministry of Labor, of which 18,153 were prosecuted.

### 6.3.C Enforcing the law: effective prosecution

The State Labor Inspectorate is an official institution tasked with monitoring the protection of labor rights and freedom in the country throughout all sectors of the economy. The Inspectorate operates under the supervision of the Ministry of Employment and Labor Relations. Territorial subdivisions of the State Labor Inspectorate exist in all 12 regions of the Republic, the City of Tashkent and the Republic of Karakalpakstan. While investigating reported cases is an integral part of the work of the State Labor Inspectorate, its main task is to take the initiative to independently conduct monitoring and investigations.

One of the focus areas of the Inspectorate is the monitoring and prevention of forced labor. The institution continuously tracks cases, implements preventive measures and prosecutes guilty officials. It currently employs 346 inspectors (2018: 258) who regularly monitor compliance by employers and employees with labor legislation in all 200 districts and cities of the country.





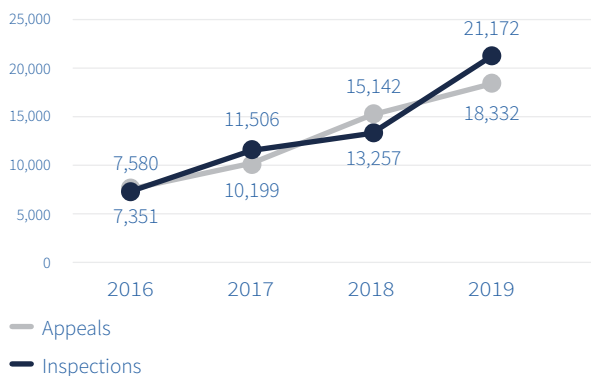
# 346

Number of labor inspectors in the State Labor Inspectorate

△ +34% (2018: 258)

Depending on the seriousness of the incidents, one inspector typically works on an average of about 50 complaints a month. When working cases, the legal state inspector reviews appeals of law enforcement bodies, participates in inspections and conducts regular monitoring operations. In case of a violation of the laws, they typically file lawsuits and impose fines. The inspectors collect information on violations of citizens' labor rights and submit them regularly to the Ministry of Labor for deeper analysis. Moreover, the state legal inspectors are also responsible for conducting outreach events to raise awareness on employee rights and forced labor.

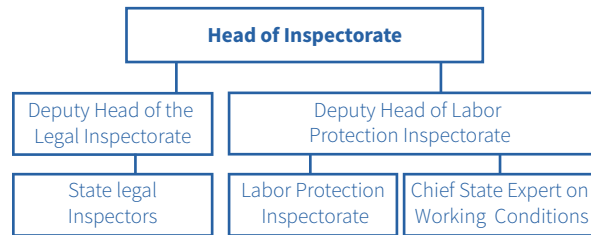
### Development of labor violation appeals and labor inspections



### Structure of the inspectorate

To effectively solve employment-related issues, the structure of the Inspectorate is as follows: There is one Head of Inspectorate that oversees the institution's overall work. The Inspectorate is then further split into the Legal Inspectorate that is mostly concerned with communicating legal aspects and following up on appeals, and the Labor Protection Inspectorate which monitors the upholding of employment rights. Both departments have a Deputy Head that oversees the respective inspectors.

### Schematic description of the Labor Inspectorate Structure



The Deputy Head of the Legal Inspectorate directly works with the legal advisers of the district (city) employment promotion center, the so-called State Legal Inspectors. Their job is to review work-related complaints by individuals or legal entities.

The Deputy Head of the Labor Protection Inspectorate employs State Labor Inspectors. State Labor Inspectors are officials that protect the rights of workers and employers when working under an employment contract. Their daily work, for instance, includes verifying compliance with employment, labor laws, as well as labor protection at enterprises and organizations located within the territory of the Republic of Uzbekistan. In case of a violation of the laws, the state labor inspector applies appropriate measures under labor legislation and participates in litigation representing the government.

Ensuring the effectiveness of the State Labor Inspectorate's work as well as its continuous improvement is a particular concern of the Government of Uzbekistan. In 2019 about 400 inspectors participated in training sessions organized by the ILO which focused on the detection, investigation and prevention of forced labor. In 2020, despite the challenges presented by the Corona crisis the Government of Uzbekistan continued its efforts to increase the capacity of the Inspectorate. To this end online training courses and seminars on the prevention of forced labor and compliance with labor regulations were held. More than 2,100 people participated in these events including representatives of the Confederation of Employers, the Chamber of Commerce and Industry, the Federation of Trade Unions as well as civil society activists, farm managers, operators of cotton clusters and other employers.

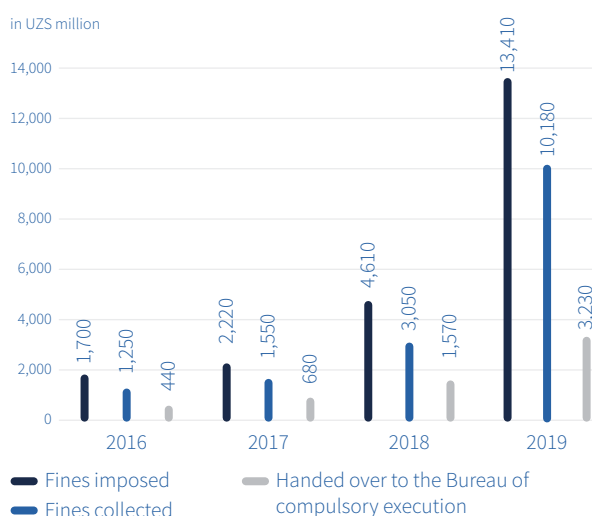




## Effective penalties

In 2019, the Inspectorate imposed 15,377 fines for violations against existing labor standards and laws for a total amount of 13.4 billion UZS (USD 1,405,000), almost tripling the amount imposed in 2018 (4.6 billion som or USD 548,000)<sup>53</sup>, showing that the strengthened enforcement apparatus of the labor inspectorate has become an effective tool for protecting workers' rights in a short amount of time.

### Development of labor violation fines



Subject of prosecution during the 2019 cotton harvest were, among others, state officials that actively encouraged the use of forced labor in their districts and cities. Consequently, a total of 18 hokims (i.e. mayors) and their deputies for agriculture were made administratively liable for allowing the use of forced labor in their jurisdiction and were legally punished.

The issue of local officials permitting or encouraging the use of forced labor is expected to diminish significantly during the cotton harvest 2020. The reason for this is the complete abolishment of the state order for the production of raw cotton and the end to the practice of setting state-regulated purchase prices for raw cotton in the wake of the decree "On measures for the broad introduction of market principles in the sphere of cotton-growing" that was signed by the President on 6 March 2020.<sup>54</sup>

The state order system previously meant that production quotas for cotton were set centrally and broken down to local government responsibilities. Local officials would then be held to account for the fulfilment of their quota contribution. These officials thus had a direct vested interest in the volume of cotton harvested, inadvertently incentivizing them to use any means at their disposal to complete the quota.

Even so, the Labor Inspectorate remains dutifully vigilant during the 2020 cotton harvest to effectively combat the last remaining cases of forced labor in close cooperation with trade unions, NGOs and the ILO.

In addition to the efforts by the Labor Inspectorate the Federation of Trade Unions conducts national monitoring during the cotton harvest season in order to not only prevent child and forced labor but also to create good working conditions for pickers in all parts of the country. In 2019 representatives of the Federation and locals NGOs formed 13 regional working groups to facilitate the monitoring of the harvest. A total of 65 civil society activists participated in the monitoring activities.

The monitoring teams are headed by conducted by qualified and experienced specialists of the republican councils of sectoral trade unions, some of whom have been certified by the ILO. With the support of the World Bank, the Federation of Trade Union has been implementing the Feedback Mechanism project since 2015. As an instrument of public control, this project is intended to supplement, not replace, the state supervision of work. Citizens and their associations have a choice of different channels to communicate their grievances to the Feedback Mechanism. During the cotton harvest of 2019 the Feedback Mechanism of the Council of the Federation of Trade Unions received 433 complaints concerning the use of forced labor, 34 of those related to the collection of funds for the cotton harvest.

As a direct result of the various monitoring activities and feedback mechanisms more than 400 Uzbeks received financial compensation.



<sup>53</sup> Conversion rate USD to Uzbek som on 31 December 2018: USD 1 = 8,389.00 UZS; 31 December 2019: USD 1 = 9,537.97 UZS

<sup>54</sup> Resolution of the President of the Republic of Uzbekistan on measures for the broad introduction of market principles in the cotton sector, QPQ-4633, Date of adoption 06.03.2020, Date of entry into force 07.03.2020

In Syrdarya region experimental field centers were built in order to ensure decent working conditions for cotton pickers recruited from other regions of the country. These centers provide appropriate shelter as well as sanitary, medical and recreational facilities, as well as opportunities to purchase everyday necessities. The centers include security and order units and information resource centers. Moreover, they provide three meals a day with lunch being delivered to the cotton fields.

The conditions created in these field centers were commended by representatives of civil society.

#### 6.3.D Protecting cotton clusters — and holding them accountable

One major reform area in the textile sector has been the introduction of cotton and textile clusters that transform the state-regulated and -influenced cotton sector into a market-based system. In a short period of time, significant positive developments were brought forward by the clusters already, for example when it comes to the creation of jobs, the introduction of resource-saving technologies or the production of high value-added goods.

At the same time, certain teething problems still existed with the cotton and textile clusters — not only when it came to the protection of their legal rights, but also in regard to their obligations. To tackle these remaining issues, two important decrees have recently been adopted, whose main reform points will be highlighted in the following section.

#### *Reforming the cotton sector: the cluster decrees*

The Resolution of the Cabinet of Ministers No. 397, dated 22 June 2020<sup>55</sup>, has established important new rules regarding cotton clusters. The decree provides for the establishment of an overarching industry association, the “Cotton and Textile Cluster Association of Uzbekistan” that oversees the rights and responsibilities of cotton clusters. Among the tasks of the association is the supervision of the relationships between cotton clusters and their supplying farms and support for the introduction of advanced resource-saving technologies for growing cotton. Supporting it will be an advisory body, the “Council of Cotton and Textile Clusters” which is tasked with the identification of promising areas for the development of the industry.

Further, a formal system will be implemented for an interdepartmental commission consisting of high-level state and private actors and regional working groups to evaluate the activities of cotton and textile clusters with a view to improving the efficiency of agricultural land use. Evaluations of existing cotton clusters will be performed on an annual basis and scores attributed according to their performance in four fields of interest: production of high value-added products from the cultivation of cotton to the finished product; the efficient use of land and water resources, including the use of modern equipment and technologies; safe-guarding the best interest of cotton cultivating farmers that are contracted by the cluster; and other factors like the establishment of an insurance system, the timely repayment of loans or the absence of tax debt.

If the findings of the annual evaluation are negative, a process is triggered that — in the worst case — can lead to a cotton cluster losing its right to cultivate cotton. The clearly specified evaluation process provides a basis upon which to act effectively against clusters who do not comply with their legal and contractual obligations providing a clear set of criteria and procedures, thus clarifying the legal requirements and limiting regulatory uncertainty for cluster operators. The commission will thus be the central supervisory organ for measuring the cotton clusters’ performance and compliance and as such assure the successful transition of the Uzbek cotton and textile sector from a heavily state-regulated industry towards a sustainable and market-oriented future.

On 22 June a subsequent resolution has been approved in the Cabinet of Ministers that closes an existing weakness of the cotton cluster system. Resolution No. 398 forms the basis for a new type of organization called “cotton cooperatives.” In areas where diligently supervised cotton clusters have not yet been established and consequently no functioning textile value chain exists, cotton farms will be able to decide to get together to form cooperatives and freely choose their ginneries. In general, the same rules will apply to those cooperatives as to cotton clusters. Correspondingly to the regulations for clusters, state bodies and officials will not be allowed to interfere in the activities of the cooperatives as long as they adhere to the existing laws.

The continuous reform process of the cotton production system in Uzbekistan, as exemplified by these two resolutions, demonstrates the commitment of the Government of Uzbekistan government to



<sup>55</sup> Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on measures for further development of cotton and textile production, №397, Date of adoption 22.06.2020, Date of entry into force 23.06.2020

tackle head-on remaining legislative challenges that may emerge as reforms are implemented. This commitment to continued reform and improvement is designed to ensure Uzbekistan stays on track during its comprehensive transformation into a modern and competitive market economy.

As of the preparation of this report, official data on the 2020 cotton harvest season is not yet available. Preliminary data being compiled by the ILO based on field monitoring and feedback mechanisms shows however: During the 2020 cotton harvest, Uzbekistan continued to demonstrate major progress in the eradication of child labor and forced labor. The share of people experiencing forced labour during the harvest was reduced significantly compared to 2019. Reforms are implemented step-by-step and continue to have a significant positive impact; even if there are still challenges with uneven implementation in certain provinces and districts. Replacement of the quota system with a market-based model is expected to end the practice of deploying pickers at the very end of the harvest simply to reach targets.

#### 6.4 Fostering privatization

The privatization of previously state-owned entities is one of the central pillars of economic reform in Uzbekistan. As the government explicitly commits to creating a liberal market economy, the sale of state investments in businesses and state-owned enterprises will be one of the most obvious and impactful reform measures. This section of the report lays out the rationale for privatizing government entities and highlights a number of measures taken to that end by the Government of Uzbekistan. A closer look at privatization in cotton production illustrates the complexity of this considerable task. Finally, the case of a specific cotton cluster is employed as an example of what a cotton cluster could look like.

As part of Uzbekistan's socialist legacy, numerous enterprises remained in state control and the government interfered heavily in the operations even of those private businesses that did exist, setting targets or mandating specific strategic priorities. This centralized planning of the economy also gave rise to a considerable administrative burden for businesses. Immediately after gaining independence from Soviet Union, the Karimov-administration maintained tight control of key industries, pursuing stability and autonomy of Uzbekistan. Starting around the turn of the millennium, the government started moving away from exercising direct control over businesses and entire industries. The goal was and is to stimulate

business activity and utilize the potential of private enterprise to accelerate the economic and social development of Uzbekistan.



The government of President Shavkat Mirziyoyev prioritizes the transition to a liberal market economy and accelerated development of the country as a whole by means of modernization. As part of the current wave of rapid reforms, Uzbekistan is divesting its ownership of a significant number of public businesses across various industries to private investors. The goal is to reshape the role of the government to be an enabler and regulator rather than directly operating businesses.

The divestment process includes not only selling to Uzbek investors of all sizes but also international organizations and investors. The President has, on numerous occasions over the past few years, signed decrees including lists of state enterprises and other projects earmarked for sale to investors from Uzbekistan and abroad. For illustrative purposes, some decrees are summarized here:

On 3 April 2019, the President signed a program for the development of the chemical sector until 2030.<sup>56,57</sup> Alongside the introduction of modern corporate governance methods and International Financial Reporting Standards, the resolution contains 31 investment projects and — importantly — the sale of a number of formerly state-owned entities in the chemical industry. These range from the sale of fertilizer plants, to shares in polyethylene production facilities. Many of the asset sales are tied with obligations to buyers to invest and develop the facilities, thereby aiming to ensure the continued industrial development in the sector.

Another piece of legislature aimed at encouraging and facilitating privatization was a presidential decree dated 29 April 2019. In this decree investors are offered state shares in 29 large enterprises, including four financial institutions, two energy projects, six oil and gas projects, and three from the chemical sector. In addition, the shares of Uzpromstroybank, Asia



56 Anon., Uzbekistan continues to reform its chemical industry, Dentons, 04/24/2019, 07/13/2020, <https://www.dentons.com/en/insights/alerts/2019/april/24/uzbekistan-continues-to-reform-its-chemical-industry>  
57 Resolution of the President "On further measures to reform and increase the investment attractiveness of the chemical industry" No. PP-4265

Alliance Bank and Jizzakh Plastic are put up for an initial public offering, the shares of Quartz, Alokabank and the Uzbek Republican Commodity and Raw Materials Exchange for a secondary public offer.

#### 6.4.A Removing export controls

Uzbekistan's efforts to create an attractive investment climate not only focus on improving conditions in Uzbekistan but also on the reduction of state interference in the exports of goods. A number of recent pieces of legislation are aimed at eliminating administrative and legal obstacles, thereby stimulating and expanding export activities by private businesses.

For instance, in the past the state-owned entity Uzagroexport had a monopoly on the export of fruit and vegetables. A presidential resolution dated 21 June 2017 broke the monopoly.<sup>58</sup> Now all businesses have the right to export fruit and vegetable products. They can furthermore independently negotiate contracts with buyers and receive advance payments without limitations. The measure will allow new entrants to the marketplace to tap into the hitherto unused export potential of Uzbekistan's fruit and vegetable farming sector. It has the potential to stimulate diversification of Uzbekistan's portfolio to produce exports according to demand on the global market. Combined with more efficient use of land resources, crop yields are expected to rise. These effects can in turn increase the competitiveness and quality of Uzbekistan's farming sector and deliver improved returns for the exporting business entity.

To further facilitate the export of produce it was necessary to put into place mechanisms to ensure compliance with norms and standards in target markets. To this end, the Ministry of Agriculture and Water Resources is developing further measures to embed international quarantine regulations into national regulatory documents as soon as possible.

Similarly, equal conditions have been created for producers exporting directly and foreign trade organizations assisting domestic producers in promoting their products in foreign markets. All privileges available to exporting Uzbek producers now also apply to all other business entities involved in the export of Uzbek produce. This measure is in line with international best practice and will reduce bureaucratic obstacles for export-oriented entities. The maximum timeframe for issuing certificates of

conformity has been reduced to three working days, which is comparatively quick relative to other nations including those with robust and well-developed economies.

Along with this, the resolution reduces the tax burden on businesses that are forced to export their products at prices below the cost of production due to unfavorable conditions on foreign markets. The Special Export Commission can provide tax relief to exporters if it determines that the proceeds from the sale of goods (works, services) are below cost. Taxes are then determined by the actual price of the sale, which allows producers to direct the funds back into the business to reduce the cost of production.

One of the most prominent measures taken by the Uzbek government is the abolition of state quotas for cotton production. In March 2020, by Presidential decree, the quota system was eliminated. In previous years, the system of government mandates had been cited as an incentive for local administrators to coerce adults and children into working in the cotton fields, especially towards the end of the harvest when the job became more strenuous. To prevent similar behavior in 2020, local administrators have been directed to identify and enforce new anti-forced labor laws which criminalize the practice. Violators are now subject to increased fees and even jail time. Eliminating forced labor is crucial to opening new markets for export.

Agriculture lies at the heart of Uzbek economy. However, as a former Soviet Socialist Republic there are a number of legacy issues that Uzbekistan struggles with until now. While significant progress was made in many regards since the collapse of the Soviet Union in 1991, since taking office President Mirziyoyev dedicated particular efforts to finally rid Uzbekistan of these problems and to thereby transform the country into a modern state with modern labor laws.

Trade and investment decisions by responsible international investors are likely to benefit the further abolition of the legacies of the centrally planned economy. According to ILO observers, they can also have a positive impact on compliance with international labour standards. Furthermore, if the number of full-time decent jobs in textile and garment manufacturing and other parts of the economy grow, there could be a reduction of seasonal peaks in labour demand, which often fuel unfair recruitment practices.

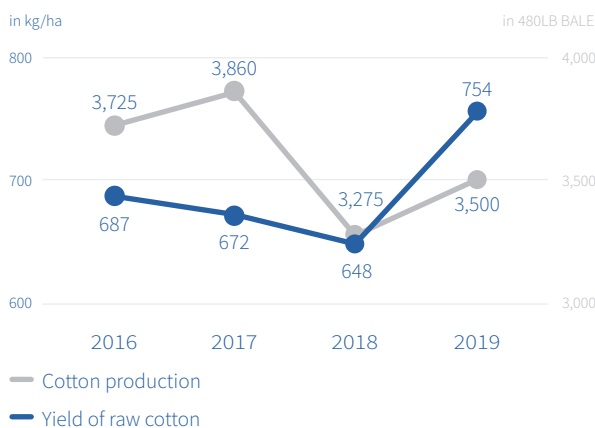


<sup>58</sup> Resolution of the President of the Republic of Uzbekistan on measures to further support local exporting organizations and improve foreign economic activity, PP-3077, Date of adoption 21.06.2017, Date of entry into force 27.06.2017

### 6.4.B Privatizing cotton production: the introduction of textile clusters

The cotton sector was one of Uzbekistan’s key industries in the Soviet era, and it still plays a significant role both in terms of employment and in foreign trade. Since coming into power in 2017, President Mirziyoyev’s government introduced sweeping structural reforms to the sector to address legacy issues that hampered the sector. He placed a particular focus on eradicating child and forced labor in the cotton harvest which had become a human rights issue in the country. By the 2019 harvest, the International Labor Organization reported that child labor had been fully eradicated and systemic forced labor was not present. It is worth taking a closer look at the efforts undertaken to restructure this sector at such a high pace as it reflects the impact and progress of reform across ESG issues.

#### Development of cotton yield and production



Before 2016, state-control over the cotton sector was particularly tight. In the past, the government provided land leases, as well as all production inputs, be it seed, fertilizer or irrigation water. The state dictated the crop to be planted, established production quotas, set wages and prices, and was responsible for shipping cotton. Ultimately, it acted as a single buyer and exporter of all raw cotton produced.



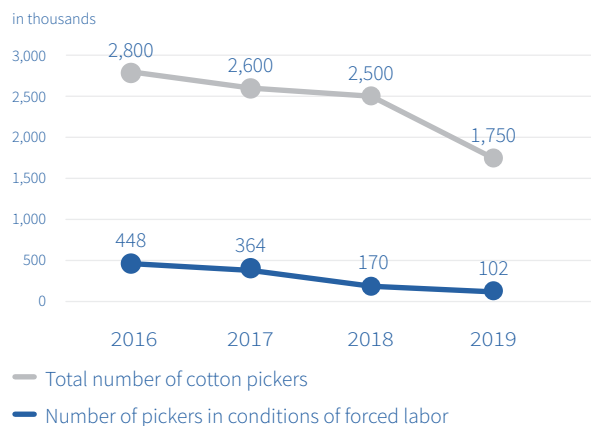
**1,010 kha**

area under cotton in 2019

△ -14% (2016: 1,180kha)

While this system provided tight control of a crucial sector of the economy, and allowed the government to ensure the revenue from cotton exports benefited the whole of the country, there were significant problems. It was government policy to mobilize students, teachers, nurses, doctors and many other government workers and employees of private businesses to pick cotton manually. The working conditions and wage levels in the cotton harvest were far too low to attract the number of pickers required to achieve the ambitious quotas dictated by the state. Because local and provincial officials were held accountable for achieving the quotas, they faced strong incentives to do so at all cost, including recruiting children into the fields. The effect was that 448,000 Uzbeks were forced to pick cotton in 2016, at the end of the Karimov era. Aside from the obvious misallocation of skilled workers in other sectors to picking cotton, the human cost of forced labor in the fields was unsustainable.

#### Development of picker numbers during the cotton harvest



Shortly after coming into power, President Shavkat Mirziyoyev’s government embarked on a reform program aimed at ending the practice in the shortest possible time frame. In 2018, the President decreed that state employees, including teachers and doctors, as well as students at state-run schools, cannot be ordered to perform tasks such as cleaning streets or picking cotton, a common practice in Uzbekistan. Using forced labor was criminalized in 2020. At the same time, the least productive regions were no longer required to grow cotton. Consequently, production dropped from 3,725 thousand bales (480lb per bale, or 217.72 kg) in 2016 to 3,250 thousand bales in 2019 and the land area for cotton shrunk from 1,180 kha to 1,010 kha in the same period. The government-set wages for cotton pickers were replaced by minimum



wages, enabling employers to offer financial incentives and attract more pickers to complete the harvest.

The most fundamental reform however was the introduction of the cotton textile “cluster” system. These cotton clusters are private enterprises which replace the state as buyers of raw cotton from farmers. The cotton is grown on land directly leased to the cluster from the government and operated by its employees. Alternatively, individual farmers may work smaller plots in a cooperative, or as contract farmers for a specific cluster. Clusters may also offer financing to farmers for production inputs either through loans or advance payments on the contracted harvest. The government no longer buys and exports any raw cotton and is finalizing the considerable task of divesting its own cotton production interests.

#### Development of cotton clusters



The role of the government in cotton production thus changes significantly. Rather than being invested directly in the operation of cotton fields, government officials regulate the clusters. No longer incentivized to fulfill a centrally set quota of cotton production starting with the 2020 cotton harvest, officials at the local and provincial level are free from conflict of interest. To strengthen the role of impartial regulators, officials such as hokims are prohibited from owning financial interests in businesses, including clusters, in the area under their control.



**102,000**

Cotton pickers in conditions of forced labor in 2019

△ -87% (2016: 448,000)

Clusters are not facing the distorted incentives of working against a government quota but are incentivized to organize cotton production in an effective, efficient, and — above all — legal manner. This led, among other things, to a steep rise in the wage levels for cotton pickers, once the wages were no longer set centrally. A minimum wage for cotton pickers remains determined by the government and it, too, has increased, growing 26.2%, from 1,030 to 1,300 UZS/kg, between 2019 and 2020. The minimum wage set by the government each year establishes a wage floor, but in many instances wages above the legally required minimum are offered to attract sufficient workers for the harvest effort. The rising wage level for cotton pickers makes the jobs in the cotton harvest more attractive and thus provides an increased number of pickers choosing to work in the harvest as a means to earning an attractive income.



**1,300 UZS/kg**

Minimum wage for cotton pickers in 2020

△ +26% (2019: 1,030 UZS/kg)

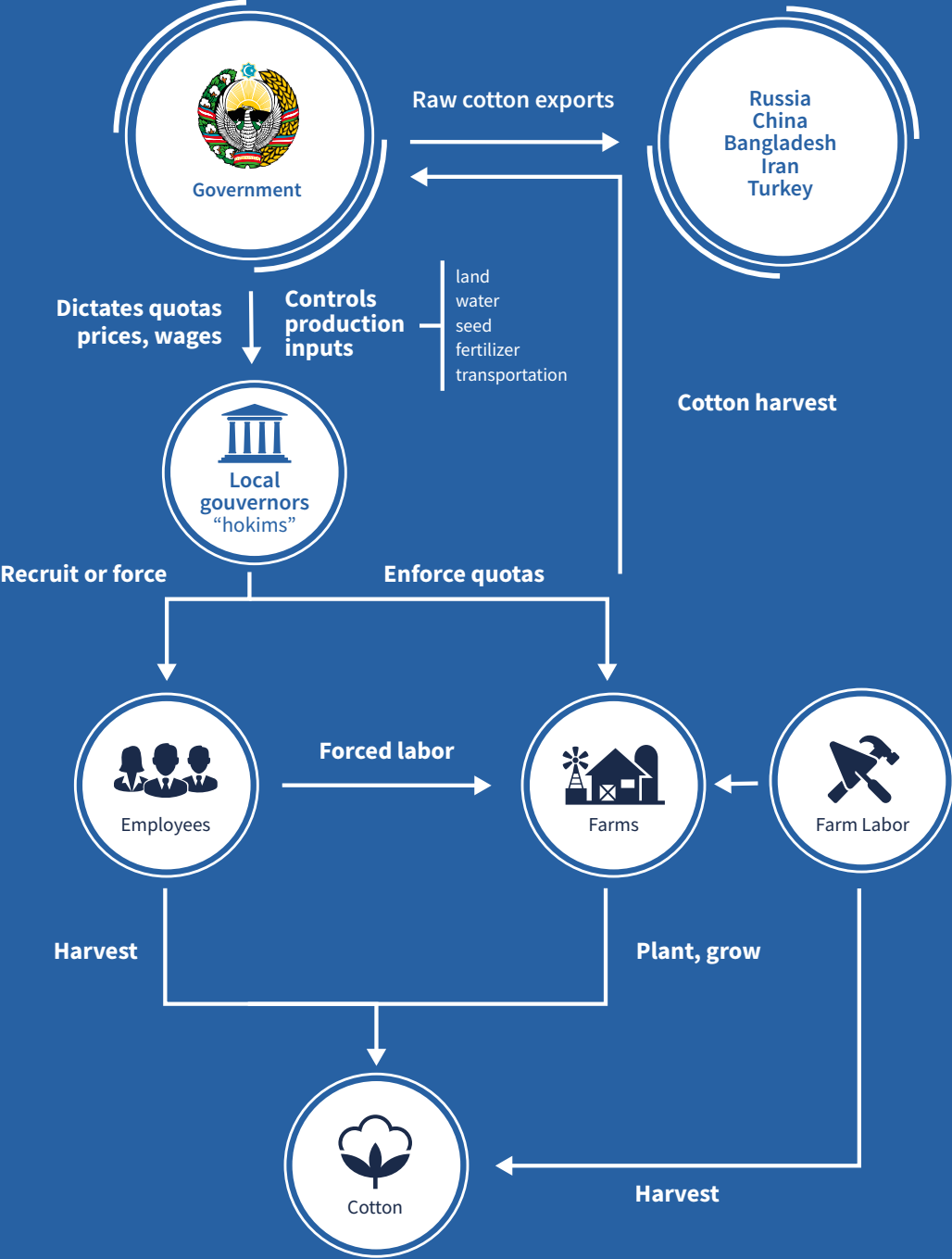
Clusters do more than simply collect cotton, however. Leveraging both financial investments and the innovative power of the private sector, the government aims to extend the cotton value chain to include further processing steps. Instead of exporting raw cotton, clusters are enabled to add value to the resource by producing yarn, fabrics or even manufactured garments.

The privatization of cotton production opens up further possibilities. For instance, individual clusters now may identify business opportunities in various geographic areas and in niche markets that could not have been serviced effectively by a centrally organized, bulk production system. Buyers outside Uzbekistan may decide to purchase cotton products from clusters to meet custom specifications and criteria. Additionally, cotton fibers can become traceable from the field, through the entire value chain, to shelves all over the world if clusters see the demand for such solutions.



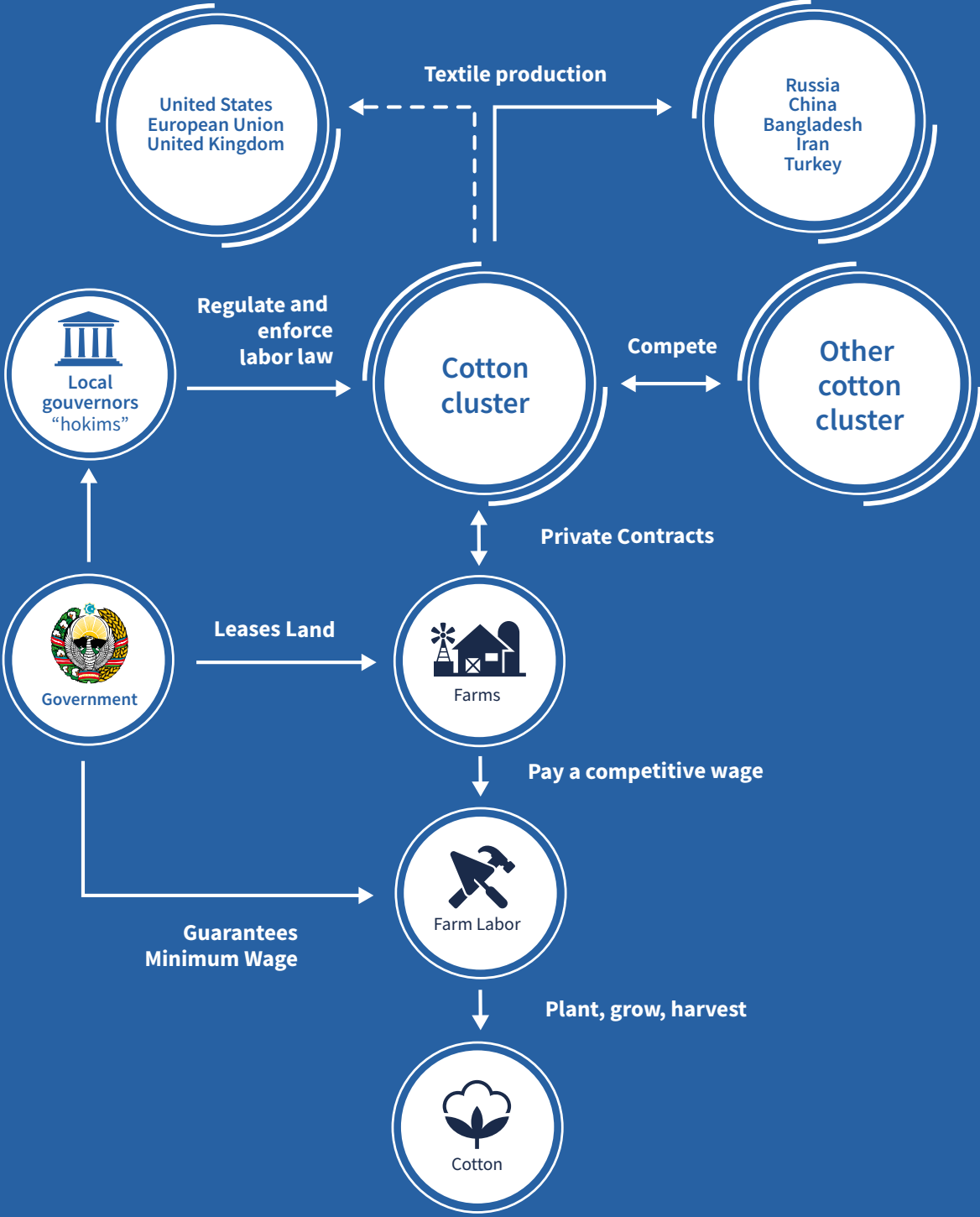


# UZBEKISTAN COTTON PRODUCTION, PRE-2016

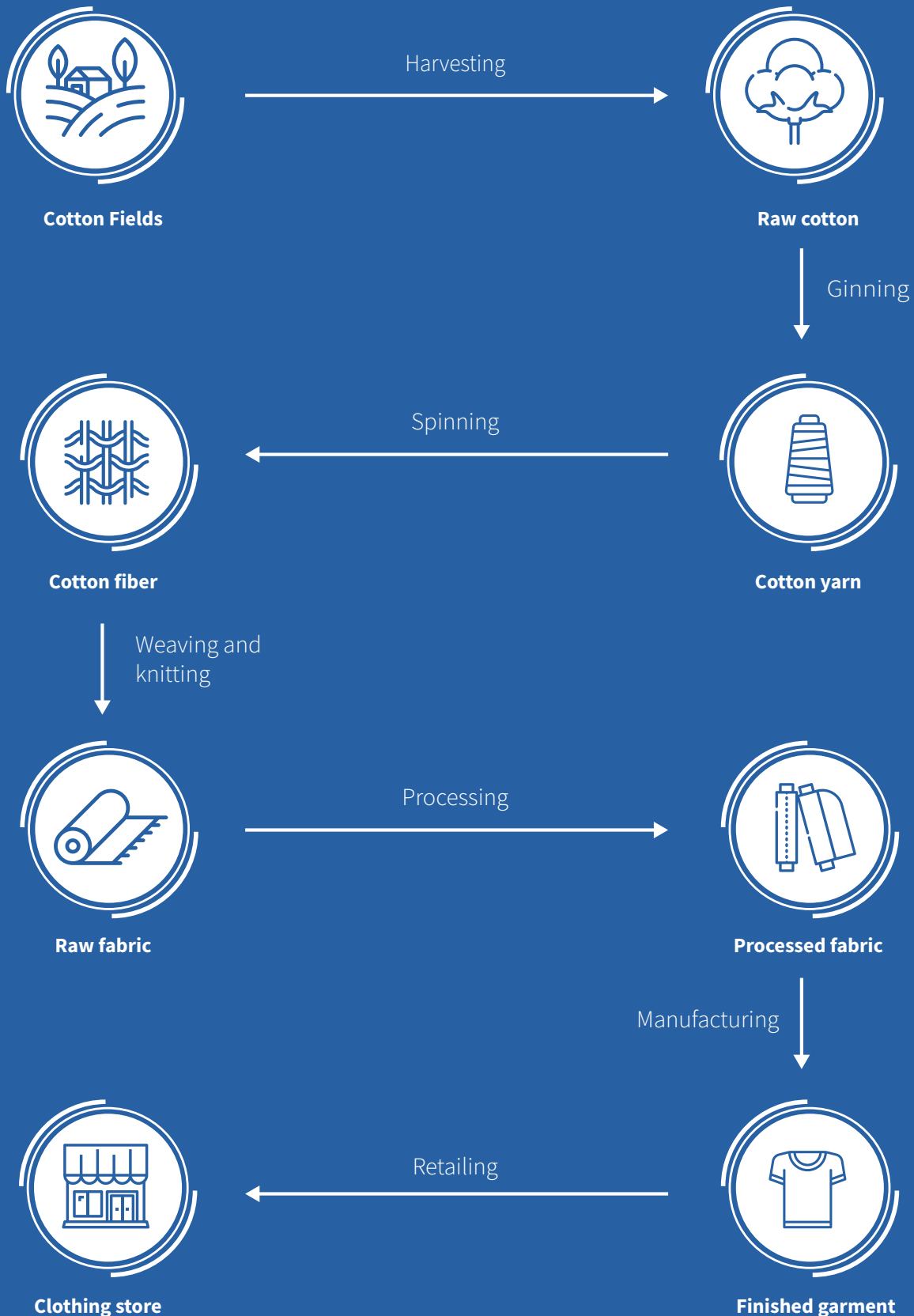




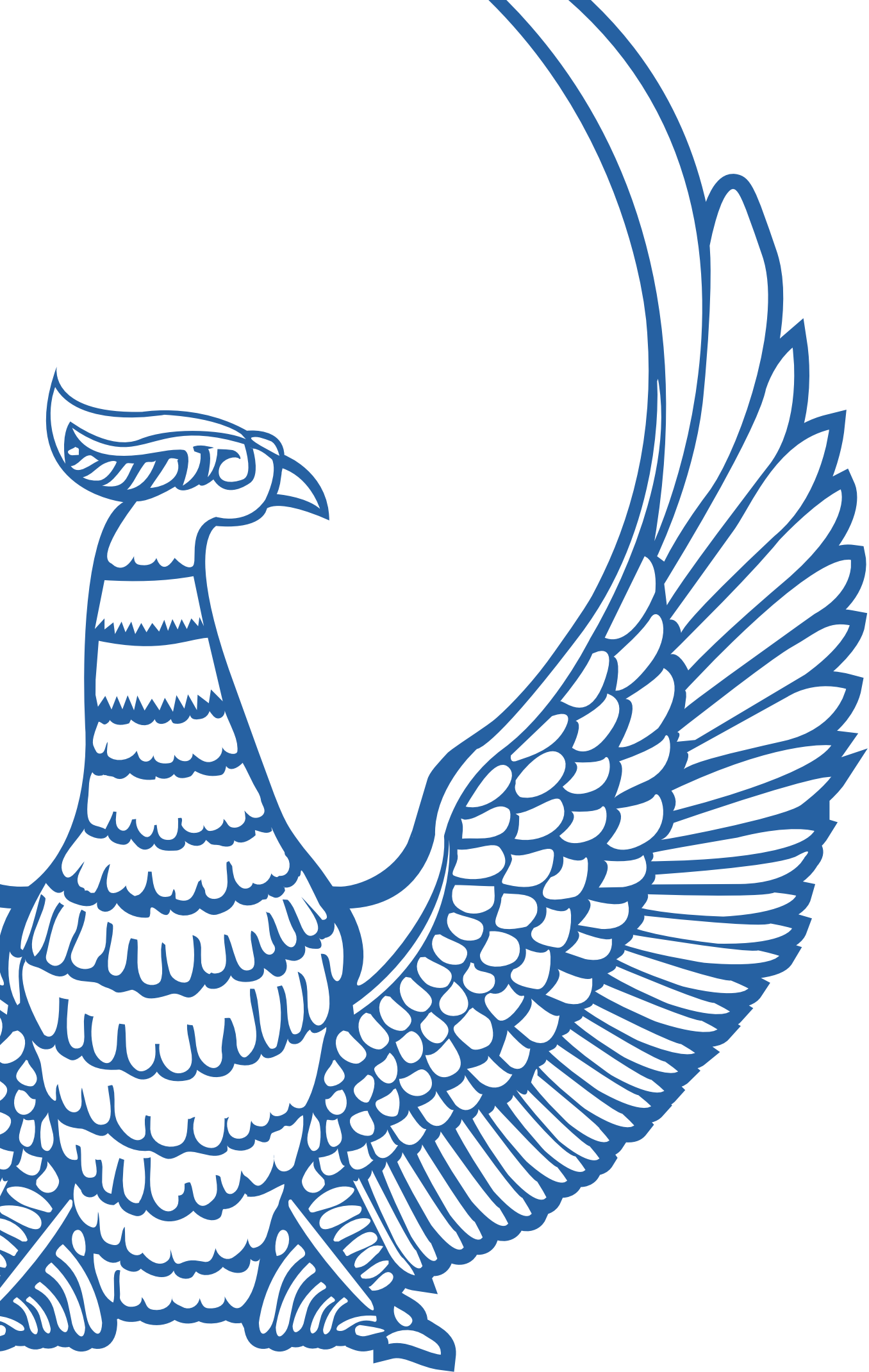
# UZBEKISTAN COTTON PRODUCTION, 2017-PRESENT



# THE COTTON PRODUCTION VALUE CHAIN







## Sustainable Livelihoods

- |     |  |                     |
|-----|--|---------------------|
| 7.1 | Furthering education                   | <b>Page 71 – 75</b> |
| 7.2 | Increasing automation and productivity | <b>Page 76 – 79</b> |
| 7.3 | Using natural wealth responsibly       | <b>Page 80 – 83</b> |

# INVESTED IN UZBEKISTAN

## A ROLE MODEL CLUSTER: INDORAMA KOKAND

The Indorama Corporation, a chemical holding company based in Singapore, established a fully privatized cotton cluster in the Fergana Valley in 2016. Indorama’s initial investment was a 76% stake in a new spinning mill that began operation in 2010. The joint venture with the government expanded into four mills in 2016, when the company bought out the remaining 24% from the Uzbek national bank. Since 2018 cotton production at a significant scale was added to the operations after the cotton cluster system was introduced. The cluster now processes about 50,000 tons of raw cotton fiber annually and converts it into cotton yarn in four modern mills. That yarn is both sold to domestic Uzbek garment manufacturers, knitters, and weavers, and exported into various global markets.

Indorama Kokand, the Uzbek subsidiary operating the cluster, regularly invests in vertical integration and the improvement of existing operations. The cluster directly employs about 1,100 people, of whom roughly 70% are women. Owing to the high degree of mechanization in its directly operated cotton production — as well as the modern equipment operated there and in its processing facilities — the cluster provides significant training opportunities to workers. These workers subsequently become more mobile within the sector and can pursue higher paying jobs in and outside the Indorama cluster. Indorama directly leases and operates 50,000 ha of farmland and cooperates with a further 1,200 contract farmers operating an additional 23,000 ha of farmland. To increase sustainable land use, Indorama introduced a crop rotation system between wheat and cotton. After a harvest, straw from wheat or the shredded cotton plant is returned to the fields for mulching and thus contributes to the long-term improvement of soil quality.

Beyond that, the cluster operator is taking a number of steps to achieve improvements in the productivity of its growing operations. Large-scale capital investments continue to be made to level fields and prepare them for mechanized harvesting using modern machinery. More efficient irrigation technologies have been installed. These capital investments are made possible due to the new incentive structure for cluster operators. Soil quality, irrigation and mechanization directly influence the productivity of the cluster. The cluster operator, selling the processed product on the open market, directly benefits and is therefore incentivized to make these investments. Still, a significant percentage of cotton across Uzbekistan continues to be hand-picked on contract farms like Indorama’s due to the capital investment required for mechanization. To harvest the 23,000 ha under management, 25,000 to 30,000 pickers are required. The company is working with human resource experts to guide the process of hiring laborers for the cotton harvest. The consultants ensure contracts are set up and adhered to across the contract farms. In addition, Indorama directly employs group leaders, each responsible for 70 to 100 pickers. The pickers also receive training to inform them of their rights. All of this is in place to help detect any individual cases of coercion or infringement on the employee’s contract.



**50,000 t**

Weight of raw cotton processed annually by the Indorama Kokand cotton cluster



**1,100**

Number of employees of the Indorama Kokand cluster (share of women in the workforce: 70%)



**50,000 ha**

Total amount of farmland operated by Indorama



# 7. SUSTAINABLE LIVELIHOODS

## 7.1 Furthering education

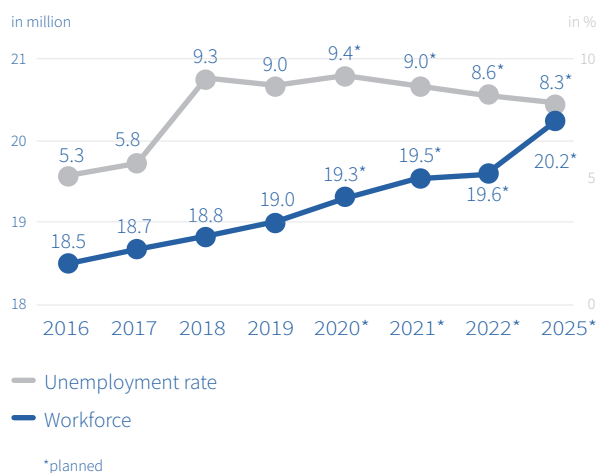
With more than 33 million inhabitants, Uzbekistan is by far the most populous country in Central Asia. Moreover, it has one of the fastest-growing populations in the region.<sup>59</sup> Since 1991, the country's population increased by almost 60%. As a result of this fast growth, Uzbekistan's workforce is particularly young. Nearly 55% of its inhabitants are below 30 years of age.<sup>60</sup> In the coming years, the Uzbek population is expected to grow another 33%, to 44 million by 2035. Simultaneously, today's large child and youth population will move into the labor force, making it the largest Uzbekistan has ever had.<sup>61</sup>

### Population development

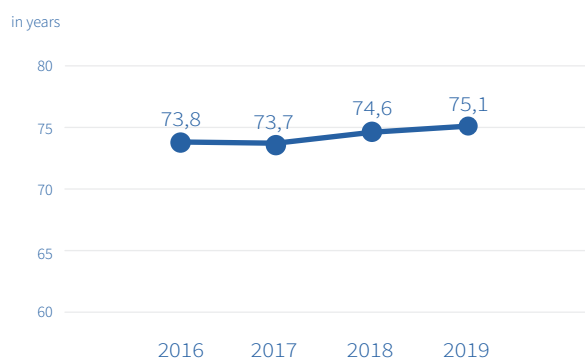


First and foremost, as the former President Karimov already recognized, young Uzbeks bring a fresh perspective to their country. They are eager to learn, to build their experience and to apply their skills to create business opportunities and actively shape the country's future. Regarding the latest global developments, Uzbekistan can particularly profit from young people's affinity for communication and digital technology. As the millennial generation, they have grown up around technology, and have developed a natural familiarity. Therefore, they are able to quickly understand, adapt to, and harness new and modern ways of doing business. In light of the advancements that the Government of Uzbekistan is currently planning to implement across industries, its young workforce promises a successful and quick execution. Additionally, a young workforce typically exhibits great adaptability and agility for new developments, securing a continuous modernization of Uzbekistan. Consequently, the demographic dynamic in Uzbekistan is expected to deliver significant growth opportunities for the country and its economy now and in the future.<sup>62</sup>

### Unemployment rate and size of workforce



### Development of life expectancy



What makes Uzbekistan's workforce attractive and a key driver for growth is not only the steep increase in population but also the high level of scholastic achievement. The Government of Uzbekistan is awake to the importance of cultivating this resource for future growth and is therefore committed to improving its school system. It has been designing and promoting a number of relevant reforms and steadily increases its investments in this sector.<sup>63</sup> From 2009 to 2019, the country multiplied expenditures on education by roughly a factor of ten. Today, Uzbekistan has one of the highest rates of public spending on education in the world, with the education budget representing a higher share of total public spending at 31.4% in 2018 than the average for both the Europe and Central



<sup>59</sup> The World Bank Group, Population, total - Uzbekistan, 2020, 07/20/20, <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=UZ>

<sup>60</sup> Unicef for Every Child, Youth policy Uzbekistan - Unicef for Every Child Uzbekistan, 08/12/18, 07/20/20, <https://www.unicef.org/uzbekistan/en/youth-policy>

<sup>61</sup> Investment Promotion Agency of the Republic of Uzbekistan, personal communication, 07/2020

<sup>62</sup> Alba, J., 6 top benefits of hiring young talent, unicef Thailand, 10/28/19, 07/21/20, <https://www.unicef.org/thailand/stories/6-top-benefits-hiring-young-talent>

<sup>63</sup> The World Bank Group, Uzbekistan Education Sector Analysis, 12/27/18, 07/21/20, <http://documents1.worldbank.org/curated/en/379211551844192053/pdf/Uzbekistan-Education-Sector-Analysis.pdf>

Asia region (11%) and the OECD (13%).<sup>64</sup> These investments are bearing fruit, and are reflected in a well-educated work force.<sup>65</sup>



**10x**

Increase in education expenditure since 2009

In Uzbekistan, education and equal access are priorities of the State and guaranteed by law. Under former President Karimov, the focus of education investments was mostly placed on establishing quality primary and secondary schools free of charge and compulsory for every child.<sup>66</sup> As a result, in 2019, the mean years of schooling were reported at 12.7 years, up from 12.5 in 2016, 99.9% of adults aged 25 or older indicated to have at least some secondary education, and the literacy rate of the Uzbek population was at 100%. According to the Human Development Report, these numbers surpass the world's as well as the European and Central Asia's averages and indicate "high" to "very high" human development in Uzbekistan.<sup>67</sup>

Next to universal educational knowledge, Uzbekistan also placed a focus on technology in its primary and secondary education institutions. Technology, innovation and resulting productivity gains are key drivers for the country's growth. Therefore, the Government of Uzbekistan continuously works on providing its students and future workforce with the best possible skillset to compete in a technology-driven and international work environment. For instance, the proportion of schools provided with computers for educational purposes has increased from 87.3% in 2017 to 97.0% in 2018.<sup>68</sup>



**97%**

Proportion of schools with educational computers in 2019

△ +10p.p. (2018: 87%)

After a good primary and secondary education basis was set up, the government's focus shifted towards tertiary education in 2011. Currently, students

are selected for tertiary education based on their results on a nationally conducted test by the Uzbek State Testing Center under the Cabinet of Ministers. In accordance with the institutions' capacities in tertiary education, there are annual university enrollment and intake levels and a maximum number of student places. Prior to 2011, only a small number of applicants could be admitted into tertiary education due to the large demand, which indicates the population's desire for higher education.<sup>69</sup>



**99.9%**

share of population with at least some secondary education

To meet the demand for tertiary education, the government worked on increasing the number of available student places in Uzbekistan over the past several years. From 2011 to 2017, seven higher educational institutions were founded in Uzbekistan, increasing the total number to 72 institutions. In 2018, the Mirziyoyev administration then initiated the "Comprehensive Development Program of the Higher Education System for 2017-2021." This reform program is targeted at improving multiple aspects of the educational system, including for instance:

- ▶ Quality improvement of graduate training
- ▶ Qualification upgrading of academic staff of higher educational institutions
- ▶ Wide-scale development of international relations
- ▶ Opening new higher educational institutions
- ▶ Establishing of joint degree programs and faculties
- ▶ Introduction of new education directions and specialties
- ▶ Extramural and evening departments
- ▶ University autonomy on student quotas and educational programs according to labor market needs
- ▶ Recognition of diploma obtained abroad<sup>70</sup>

<sup>64</sup> The State Committee of the Republic of Uzbekistan on Statistics, Expenditure on education and healthcare, 2020, 07/21/20, [http://web.stat.uz/open\\_data/en/2.3%200D\\_budget\\_eng.pdf](http://web.stat.uz/open_data/en/2.3%200D_budget_eng.pdf)

<sup>65</sup> The World Bank Group, Uzbekistan Modernizing Tertiary Education, 06/2014, 07/21/20, <https://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Uzbekistan-Higher-Education-Report-2014-en.pdf>

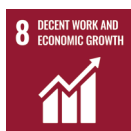
<sup>66</sup> United Nations Development Programme Human Development Reports, Human Development Indicators: Mean years of schooling (years), 2019, 07/22/20, <http://hdr.undp.org/en/indicators/103006>

<sup>67</sup> The Global Goals, 4 Quality Education, 07/21/20, <http://nsdg.stat.uz/en/goal/7>

<sup>68</sup> The World Bank Group, Uzbekistan Modernizing Tertiary Education, 06/2014, 07/21/20, <https://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Uzbekistan-Higher-Education-Report-2014-en.pdf>

<sup>69</sup> Support and Promotion for Higher Education Reform Experts, Higher Education in Uzbekistan, 2018, 07/22/20, <https://supportthere.org/page/higher-education-uzbekistan>

<sup>70</sup> The State Committee of the Republic of Uzbekistan on Statistics, Higher Educational Institutions, 2020, 07/22/20, [http://web.stat.uz/open\\_data/en/16.4%20Higher%20Educational%20Institutions.pdf](http://web.stat.uz/open_data/en/16.4%20Higher%20Educational%20Institutions.pdf)





As a result, the number of higher education institutions increased by an additional 26 universities in 2018 alone.<sup>71</sup> In line with this increase, the number of students in higher education also shot up from 268,000 in 2016 to almost 441,000 students in 2019.<sup>72</sup>



98

Number of higher education institutions in 2018

△ +36% (2017: 72)

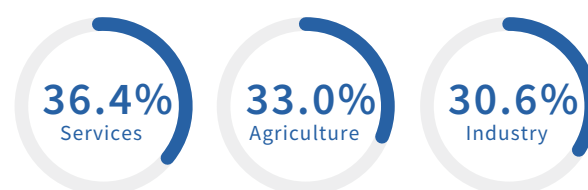
Students are admitted to the higher education institutions either based on state grants or individual contracts. Approximately one third of students are covered by state grants, meaning their tuition fees are paid for by the state. Two thirds of students cover the tuition fees from their own financial resources. This typically includes sponsorship by enterprises, organizations or the student's family. Since July 2001, the government also grants educational loans to students who passed the admissions test. These loans may not exceed the current refinancing rate of the Central Bank of Uzbekistan. Students from low-income families are offered a 50% discount on the rate, while orphans and disabled students' loans are free of interest. Since 2001, all full-time students have been provided monthly cost-of-living stipends by the government for additional support. These reforms ensure equal opportunities with regard to income or socio-economic status, and help reduce overall inequality.<sup>73</sup>

Uzbekistan is also emphasizing the importance of international collaboration in education. Thus, of the 98 universities in the country, nine are branches of foreign higher educational institutions, such as the Webster University, the Management Development Institute of Singapore, the Inha University, the Turin Polytechnic University in Tashkent and others.<sup>74</sup> With its strategy of collaboration, Uzbekistan is laying the foundation for a more closely networked international cooperation. In doing so, the country expands education as well as qualification internationally, and becomes part of a global knowledge society. This strengthens the excellence of the Uzbek workforce and, ultimately, ensures the country's competitiveness in line with international standards.

The education of Uzbekistan's workforce is particularly important as it moves away from its former position as a processor of natural resources and an agricultural exporter. Instead, the country is moving toward the manufacturing of high-value-added products, including textiles. During the 1990s, almost half of all jobs in Uzbekistan were related to agriculture. Moreover, processing structures for raw materials and agricultural commodities were still being developed. Therefore, the fluctuating prices of raw materials and agricultural commodities have had a direct and major impact on the well-being of the Uzbek population.

In recent years, Uzbekistan increasingly focused on further developing of a number of its industries, such as the cotton or wheat production, increasing the need for an educated workforce. Investments in modern equipment, leveraging its rich natural resources, and the establishment of new secondary processing industries enabled development of its value chain. These steps have super-charged the country's ability to produce value-added products, but cannot be sustained without skilled labor.

#### Share of workforce employed by each economic sector



Simultaneously, the country's services sector is experiencing strong growth. In 2019, the services sector accounted for 31.6% of the country's GDP and employed 36.4% of the total workforce. The key economic drivers for this were transportation and tourism. According to the United Nations World Tourism Organization, Uzbekistan was the fourth fastest growing country for tourism in the last year.<sup>75</sup> As a result, the primacy of processing raw material and agriculture cultivation has waned.<sup>76</sup> For instance, only 33% of the workforce was employed in agriculture by 2019.<sup>77</sup>

71 The State Committee of the Republic of Uzbekistan on Statistics, Information about students of higher educational institutions, 2020, 07/22/20, [http://web.stat.uz/open\\_data/en/3.3%20info\\_OTM\\_eng.pdf](http://web.stat.uz/open_data/en/3.3%20info_OTM_eng.pdf)

72 Education, Audiovisual, and Culture Executive Agency (EACEA), Overview of the Higher Education System, 2017, 07/22/20, [https://eacea.ec.europa.eu/sites/eacea-site/files/countrifiche\\_uzbekistan\\_2017.pdf](https://eacea.ec.europa.eu/sites/eacea-site/files/countrifiche_uzbekistan_2017.pdf)

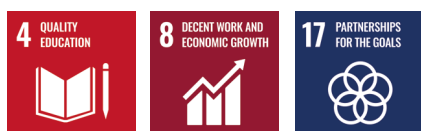
73 Investment Promotion Agency of the Republic of Uzbekistan, personal communication, 07/2020

74 Anon., The economic context of Uzbekistan, 07/2020, 07/22/20, <https://www.nordeatrade.com/no/explore-new-market/uzbekistan/economical-context>

75 The World Bank Group, Uzbekistan Modernizing Tertiary Education, 06/2014, 07/21/20, <https://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Uzbekistan-Higher-Education-Report-2014-en.pdf>

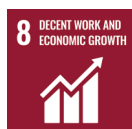
76 Anon., The economic context of Uzbekistan, 07/2020, 07/22/20, <https://www.nordeatrade.com/no/explore-new-market/uzbekistan/economical-context>

77 The World Bank Group, Uzbekistan Modernizing Tertiary Education, 06/2014, 07/21/20, <https://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Uzbekistan-Higher-Education-Report-2014-en.pdf>



Both developments — the increasing production of value-added products and the growth of the services sector — require and are driven by a highly skilled workforce.<sup>78</sup> Accordingly, Uzbekistan does not simply rest on its educational achievements, but continues to strive for improvement and better results. For this purpose, the Government of Uzbekistan has identified a number of tasks in line with SDG Number 4 “Quality Education” and expects the following to be completed by 2030:<sup>79</sup>

- ▶ Raise the primary and secondary education to a qualitatively new level, leading to relevant and effective learning outcomes while maintaining universal coverage
- ▶ Ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education
- ▶ Promote equal access to affordable and quality secondary, tertiary, vocational and additional education for all men and women
- ▶ Ensure equal access to all levels of education and vocational training for persons with disabilities by upgrading educational facilities and providing safe and effective learning environments for all
- ▶ Substantially increase the number of youth and adults who have relevant skills — including technical and vocational — for employment, decent jobs and entrepreneurship
- ▶ Enable all learners and students to acquire the knowledge and skills needed to promote sustainable development
- ▶ Significantly increase the coverage of tertiary education, the number of loans and grants, including international ones, for enrollment in higher education programs<sup>80</sup>



<sup>78</sup> The Global Goals, 4 Quality Education, 07/21/20, <http://nsdg.stat.uz/en/goal/7>

<sup>79</sup> The Global Goals, 4 Quality Education, 07/21/20, <http://nsdg.stat.uz/en/goal/7>

<sup>80</sup> Anon., Uzbekistan to cease exporting raw cotton in 2020, Kun.uz, 12/28/19, 07/23/20, <https://kun.uz/en/news/2019/12/28/uzbekistan-to-cess-exporting-raw-cotton-in-2020>

# ADDING VALUE TO PRODUCTS

## IMPROVING THE UZBEK TEXTILE VALUE CHAIN

Cotton is one of the most important raw materials for the textile and clothing industry. Worldwide, 26 million tons of cotton with a value of more than USD 50 billion are produced annually. Involved in the production are more than 100 million farmers in over 80 countries. Almost 75 % of cotton workers are employed in the fields or directly with cotton cultivation. Average farms are two to four ha, often in remote rural areas. In many places, cotton is therefore a key to rural development. Meanwhile, successful agricultural cultivation is no guarantee of economic development. For many producing countries, there is a lack of processing structures to cater to the global textile and clothing industry. Raw cotton exports remain an important source of earnings, but this leaves little room for growth especially for low-level workers who are dependent on a good harvest and a multitude of other factors outside their control.



**100,000,000**

Number of farmers involved in the harvesting of cotton worldwide

Uzbekistan, the seventh-largest cotton producer worldwide, has been addressing this issue over the past several years. The country is working to establish a fully integrated textile chain and the government is providing support for private business to process almost all the cotton fiber and yarn produced in Uzbekistan. The country heavily invested in processing structures for the cotton industry to make this possible. As a result, Uzbekistan can now process a significantly larger amount of cotton while exporting less. In 2019, for instance, Uzbekistan exported only 16 % of its produced raw cotton compared to more than 50 % in 2016. For the 2020 harvest, the Government of Uzbekistan announced its plan to stop exports of all raw cotton, and instead intends to begin full-scale processing of added-value cotton fiber. This is the first of two stages in the further development of the cotton sector in Uzbekistan. The second stage of development is to improve the quality of processing and expand further into the garment value chain. Ultimately, Uzbekistan expect to export an increasing proportion of finished products.



**7th**

Rank of Uzbekistan among the largest cotton producer countries worldwide

The processing of cotton fiber within the clusters as vertically integrated enterprises or in further stages of the value chain by independent textile and garment businesses requires a new set of skills. Additional training and skill development are required to operate more complex machinery in spinning and weaving facilities for instance, or to maintain that machinery and manage the larger workforce assembled in clusters. In turn, these activities provide additional value compared to e.g. the hand-picking of cotton, increasing overall skill and productivity levels in the economy.



**16%**

Share of produced raw cotton in Uzbekistan that was exported in 2019  
△ -34p.p. (2016: 50%)

The cotton and textile value chain merely serves as an example in this context, illustrating the efforts by the government to reduce primary resource exports overall and increase the proportion of value added in the export mix across sectors.



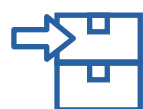
## 7.2 Increasing automation and productivity

Uzbekistan has served as an example for its Central Asian neighbors, investing heavily in the development of the service and industrial sectors to ensure the country's continuous growth and modernization. A higher degree of automation, driven by more sophisticated equipment and more advanced technology, is the necessary complement to fully benefit from a skilled workforce and modern infrastructure. Capital investments in innovative methods of production increase labor productivity and thus, once again, add value. Based on this foundational consideration, innovation and research have long been an area of focus for the government. Over the past years, there have been a number of initiatives to encourage innovation in Uzbekistan and establish it as part of the country's core objectives.

Moreover, capital investment in machinery and equipment unlocks growth potential and enables a sustainable expansion of production — both of which are key to Uzbekistan's growth strategy. Due to this, the government is increasingly concentrating its efforts on establishing a technology-friendly and innovative environment.

Starting in 2009, key strategic investment areas were identified for further development and mechanization. These comprised most major industries in Uzbekistan, including energy, oil and gas industries, the chemical, textile and automobile industries, non-ferrous metals, engineering, pharmaceuticals, high-quality processing of agricultural products, and construction materials. To encourage innovation and the implementation of automation technology, government funding was made available. Additionally, specialized state institutions, such as the Agency for Technology Transfer (since 2008), the Scientific and Technical Information State Unitary Enterprise (since 2009) and the Intellectual Property Agency of Uzbekistan (since 2011) actively promote innovation in Uzbekistan.<sup>81</sup>

The importance of mechanization and automation is also reflected in the country's expenditures. In 2018, one third of all imports was machinery and equipment. This amounts to a total capital expenditure of USD 5.8 billion.<sup>82</sup>



# 5.8 billion USD

Value of imports of machinery and equipment in 2018

All this is especially true for Uzbekistan's industry. Mechanization and automation are crucial to ensure efficient production methods and to remain competitive in the global marketplace. Wherever appropriate during divestment projects from formerly state-owned enterprises, the government has included requirements for potential buyers to commit to continued investments.

One instance of such requirements being placed on investors is the Resolution of the President, "On further measures to reform and increase the investment attractiveness of the chemical industry," dated 3 April 2019. The resolution approves the privatization of specific entities, in most cases with investment obligations attached. As an example, the fertilizer facility, Kokand Superphosphate Plant JSC was sold to Indorama, subject to obligations to enhance the plant's capacity and establish new production lines. Samarkandimyo JSC was offered, subject to the buyer committing to both social and investment obligations to develop more modern and environmentally friendly chemical production. A stake in Kungrad Soda Plant LLC was to be sold subject to obligations to increase the plant's production capacity from 200,000 to 450,000 tons of ammoniated Single Super Phosphate and establish new production lines. The list could continue, but the overall direction is clear: Investment, innovation and modernization are woven into the fabric of privatization.

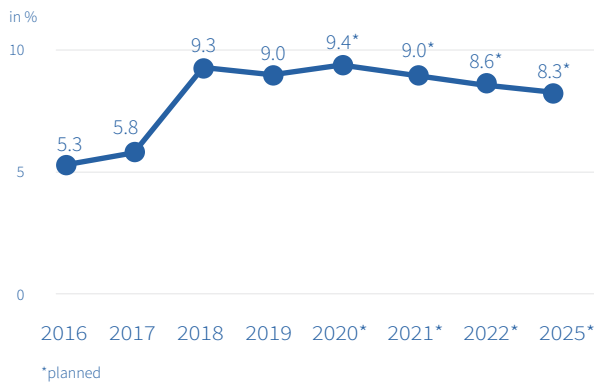
With the increasing mechanization of production across industries, the need for manual labor and labor-intensive jobs is decreasing. Simultaneously, the expanding production of high value-added products drives a growth in higher skilled jobs with accordingly higher income expectations. Despite these opposite trends overall, Uzbekistan's unemployment rate has risen slightly in recent years. This is not attributed to a sharp growth in job loss, but rather it is mainly due to an improvement in the accounting methodology of the unemployed workforce.



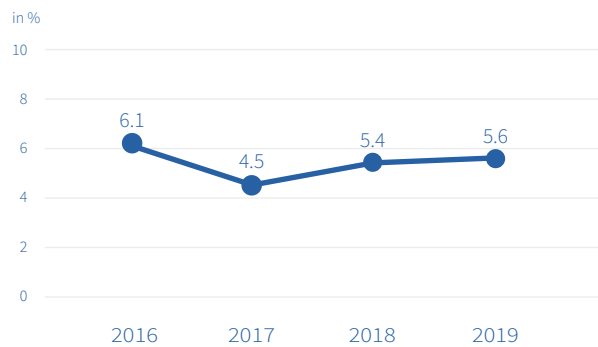
<sup>81</sup> UNESCO, Uzbekistan: a national innovation system in the making, 09/06/16, 07/23/20, [http://www.unesco.org/new/en/media-services/single-view/news/uzbekistan\\_a\\_national\\_innovation\\_system\\_in\\_the\\_making/](http://www.unesco.org/new/en/media-services/single-view/news/uzbekistan_a_national_innovation_system_in_the_making/)

<sup>82</sup> OEC, Uzbekistan, 07/23/20, <https://oec.world/en/profile/country/uzb/>

### Development of unemployment rate



### Development of Uzbekistan's GDP



Another effect of the increased production of high value-added goods as well as the creation of high-skilled jobs are rising incomes. Since 2004, Uzbekistan has experienced stable gross domestic product (GDP) growth at a pace of roughly 8% per year. Before 2016, this was mainly driven by the country's domestic demand. Since then, the reforms to address Uzbekistan's economic situation have additionally impacted the country's GDP positively. The mechanization and automation of production across industries increased Uzbekistan's economic efficiency and competitiveness. Labor force growth remained below GDP growth, indicating an increase in value added per unit of labor input. Simultaneously, the dependence on a few commodity exports was reduced by diversifying production toward value-added goods.

Moreover, rising incomes resulted in a reduction of the nationally defined poverty rate from 14.5% in 2013<sup>83</sup> to 11.4% in 2018.<sup>84</sup>



**11.4%**

Poverty rate in 2018

△ +3.1p.p. (2013: 14.5%)



83 The World Bank, Uzbekistan: On the Path to High-Middle-Income Status by 2030, 04/13/16, 07/23/20, <https://www.worldbank.org/en/results/2016/04/13/uzbekistan-on-the-path-to-high-middle-income-status-by-2030>

84 ADB, Poverty Data: Uzbekistan, 2020, 07/23/20, <https://www.adb.org/countries/uzbekistan/poverty#:~:text=Poverty%20Data%3A%20Uzbekistan,day%20in%202019%20is%2019.7%25>.

# INTO THE FUTURE

## MECHANIZING THE COTTON HARVEST

The principles of increasing productivity apply to other sectors as well, not least of all the agricultural sector, of which cotton production is a major component. In 2019, Uzbekistan harvested 2,958,000 tons of raw cotton. Although the country's cotton production has decreased, Uzbekistan still remains one of the biggest producers of cotton in the world today. Investing in technology to mechanize crop and cotton production and processing saves time and increases labor productivity. The recruitment and management of the labor force required for the manual cotton harvest is enormously complex. There were 1.75 million pickers participating in the 2019 harvest, harvesting 1.01 million ha of cotton.

Naturally, increasing productivity by automizing and mechanizing Uzbekistan's cotton production is one of the main objectives for the country. This is not only important because of the large amount of cotton that is produced, but also because of the plant's high resource demands in terms of growing and picking conditions. For instance, cotton capsules have different ripening times. Therefore, each field has to be picked multiple times, typically three to five. Cotton is relatively heavy by weight, and the plant is only about 50 cm tall, which both aggravate the challenge of manual cotton-picking. Machines, in comparison, enable a significantly faster harvest as they are able to remove lint and seed from the plant at up to eight rows at a time at higher speeds compared to humans and with much higher carrying capacity.

The introduction of the cluster system in particular acts as a driver for the mechanization of cotton production. Due to the introduction of market pricing, processing of cotton within the clusters and the termination of both the quota system and the mandatory sale of cotton to the government, cluster operators benefit from increased productivity of their contract farmers and come with the necessary scale to make the investments worthwhile. Crucially, however, cluster operators can organize financing for the machinery and upgrades to fields, such as levelling the fields or the installation of upgraded irrigation infrastructure. The government thus expects the cluster system to contribute significantly to the modernization of agricultural production, particularly in the cotton sector.

The liberalization of the Uzbek currency exchange market unlocked further potential for modernization. This allowed an easier exchange of the UZS for other currencies, which increased the country's attractiveness for international investors as they can now repatriate profits. As a result, foreign direct investments drastically increased in 2019, reaching a new high at USD 2.286 billion.<sup>85</sup>



<sup>85</sup> The World Bank, Foreign direct investment, net inflows (BoP, current US\$) – Uzbekistan, 2019, 07/24/2020, <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=UZ>

Between 2018 and 2019, clusters purchased about 12 thousand units of agricultural machinery including precision seeders which can apply mineral fertilizers and bio stimulants, modern harvesters, and laser planners that are required to prepare and maintain fields for mechanized cotton production. Mechanization means investment into the fields as well. In 2019, biochemical studies of the soil were conducted in 23 % of area under cotton, allowing optimized inputs of water and fertilizer. Approximately 1.6% of the area under cotton was improved by laser levelling, and drip irrigation systems were installed on 1.5 % of land.

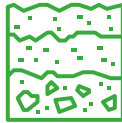
Apart from the significant investments required, most farmers in Uzbekistan have not worked with mechanized cotton harvesters before. As a result, they also require help in their choice of equipment according to their needs and lands. Moreover, the relevant stakeholders need to be trained in the use of cotton harvesters to ensure proficiency and safety. In addition to providing necessary information and training on the agricultural equipment, cotton clusters further place importance on maintenance, technical and organizational management to ensure the durability of the equipment as well as the quality of the harvested cotton. Effective management, innovations, and modern scientific achievements in the field of growing crops, such as tillage, fertilizers and pest control, have been distributed and implemented. The cotton clusters do not only provide capital but also structure the cotton harvest and processing. Moreover, they encourage and support knowledge transfer between farmers. This of course is especially true for international investors who are usually well-placed to bring in experts with experience in running modern cotton growing operations.

To ensure the accessibility and constant supply of agricultural equipment for the cotton clusters and farmers, the Government of Uzbekistan committed to support the production of agricultural equipment. As of 1 July 2018, the agricultural machinery fleet in Uzbekistan stood at 150,486 units. The fleet includes 57,822 tractors, 59,019 units of mounted equipment, 3,608 combine harvesters, 1,868 cotton harvesters, 1,738 units of forage equipment, and 28,075 other agricultural machines. More importantly, production facilities for agricultural machinery have been created across the country in collaboration with well-known international brands. These facilities produce a variety of equipment ranging from tractors to specialized equipment like combine harvesters or cotton harvesters. There are considerable procurement plans that would see a further 2,500 cotton harvesters added to the fleet by 2025. In 2019, the country harvested 5% of cotton using machines with plans to see 10% of the 2020 harvest and 20% in 2021 collected mechanically. Overall, the objective of the gradual mechanization of cotton picking is to harvest 85% by machines in 2025.

The introduction of modern machinery also necessitates the adaptation of local cotton varieties to machine harvesting. Breeders have the task of creating high-yielding, early-ripening, disease- and drought-resistant strains, as well as machine-harvested cotton varieties that are easily managed by the equipment. Currently, based on the soil and climate of the regions of the country, about 20 cotton varieties that meet these conditions are suitable for the growing zone. At present, mainly early cotton varieties are planted, ripening in 100-120 days, to ensure they can be harvested before the onset of rainy days and frosts in October.

**\$**  
**2.3 B**

Amount of foreign direct investments in USD in 2019



**23 %**

Proportion of cotton area soil biochemically analyzed in 2019



**85 %**

Projected proportion of area under cotton harvested by machines in 2025  
 Δ +80p.p. (2019: 5%)



**4,300**

Projected number of cotton harvesters in 2025  
 Δ +130% (2018: 1,868)



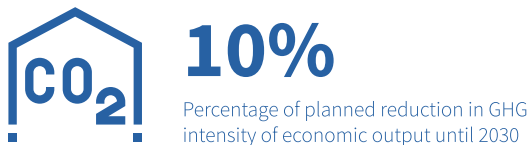


### 7.3 Using natural wealth responsibly

The awareness for environmental issues is growing in countries around the world. The preservation and efficient use of natural resources is growing in importance, and more and more energy is being produced sustainably. In 2017, the Government of Uzbekistan signed the UN Paris Agreement to combat climate change by taking appropriate policy and regulatory measures. In 2018, Uzbekistan ratified the agreement and specified its Nationally Determined Contributions (NDC) to the Paris Agreement goals.<sup>86</sup>

Uzbekistan is especially vulnerable to the effects of climate change. Water resources in the country are projected to get scarcer in the future, in turn leading to gradual land desertification and degradation. Extreme periods of droughts are also bound to occur more often. Since the 1950s, temperatures in Uzbekistan have grown by an average of almost 0.3°C for every decade, which is twice as much as the global average. This trend threatens to continue or even accelerate if no proper countermeasures are taken.

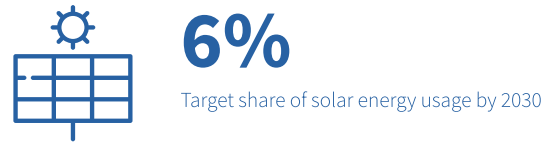
Two key areas are being tackled by the Government of Uzbekistan when it comes to climate change mitigation: 1) the reduction of greenhouse gas (GHG) emissions and 2) a more efficient energy usage in combination with the development of renewable energy generation capacities.



When it comes to GHG, Uzbekistan has shown good performance in the past. While GDP grew by 191% between 1990-2010, GHG emissions increased only by little more than 10% in total. For 2030, the Government of Uzbekistan set a renewed goal compared to 2010. The new targeted reduction in GHG emissions is 10% per unit of GDP — a contribution that is in line with the long-term goal of limiting rising temperatures to no more than 2°C globally until 2100.<sup>87</sup>

In terms of energy usage, the goal is to reduce energy consumption in comparison to GDP by 50% until 2030 (compared to 2010). Demand response measures include modernization of industrial equipment and buildings, reducing fuel consumption for power generation, and subsidies for the implementation

of a wide range of energy saving technology. The role of renewable energies for power generation will also increase by expanding solar, biogas and wind power capacities. By 2030, the share of solar energy, for example, in the total energy consumption of Uzbekistan is expected to rise to 6%.



A key driver of the change towards a more sustainable economy in Uzbekistan is the modernization of large parts of the industry. In part, structures and processes still exist that date back to the Soviet era and have proven to not be sustainable in the long run. The economy's modernization process is now progressing faster than ever before. This gives Uzbekistan the unique opportunity to significantly raise productivity levels in its industries, while not neglecting environmental aspects by implementing modern energy-saving measures and technologies.

One more ghost from the past that continues to haunt Uzbekistan is the near-disappearance of the once magnificent Aral Sea. As a result of a faulty agricultural and environmental policy, large parts of the Aral Sea area have turned from a vivid ecological sphere for animals, plants and people alike into a dusty desert area that has become nearly uninhabitable. One of the key environmental priorities for the Government of Uzbekistan in the years and decades to come is thus the prevention of further dehydration of the Aral Sea.

Uzbekistan's natural resources are one of the country's prime assets for improving the daily lives of its citizens. Only by preserving them and improving their use Uzbekistan can guarantee a prosperous future for the generations to come. The following exemplary highlights of the Aral Sea and of renewable energy generation will show what efforts the Government of Uzbekistan is undertaking to regain, maintain and use the natural wealth of the country in a sustainable manner.



<sup>86</sup> The NDC submitted by Uzbekistan can be viewed at the UNFCC's NDC Registry at [https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Uzbekistan%20First/INDC%20Uzbekistan%2018-04-2017\\_Eng.pdf](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Uzbekistan%20First/INDC%20Uzbekistan%2018-04-2017_Eng.pdf)

<sup>87</sup> This goal was submitted as the NDC under the Paris Agreement and is available in detail at the NDC Registry.



### 7.3.A Regaining natural wealth: fighting for the Aral Sea

Up to the 1960s, the Aral Sea, located in Kazakhstan and Uzbekistan, was one of the largest saline lakes in the world. Mainly fed by snowmelt and precipitation from mountains and the two rivers Amudarja and Syrdarja, the lake once measured more than 68,900 km<sup>2</sup>. In an extremely dry region, the Aral Sea provided a unique habitat for people, animals and plants in the area.

Despite its size, the Aral Sea has always been prone to strong water level fluctuations over the centuries. Because of the surrounding flat alluvial land, even minor changes of the riverbeds of the two inflows of the Aral Sea resulted in massive water diversions. Additionally, large parts of the Aral Sea were shallow, and the summers in the area typically hot. The changes in the water volume could therefore quickly lead to a major reduction of the Sea's surface. Despite these changes and the amplification of the effect by preindustrial usage of the Aral Sea's water resources, it did not result in long-term damages of the habitat in Uzbekistan.

However, in the 20th century the Soviet Union exploited the natural resources of Uzbekistan. Uzbekistan's agricultural sector, in particular cotton production, was significantly expanded to meet the Soviet Union's clothing demands. Cotton was required to be planted in regions near the Aral Sea that were basically barren. Uzbekistan soon became known as the Soviet Union's "wardrobe", accounting for a vast majority of its cotton demand.

As Uzbek cotton was of particularly high quality, the Soviet Union looked to further increase levels of cotton production over the decades. The cultivatable land was expanded to include the large steppe areas around the Aral Sea. Such an increase in the area under cultivation required more irrigation, and so more and more water was drawn away from the rivers Amudarja and Syrdarja that fed the Aral Sea. Between 1950 and 1990, the area of irrigated land increased from 4.7 to 7.9 million ha (+68%), including cotton growing regions that increased from 1.9 to 3.1 million ha (+61%). Other crops saw steep rises as well. Starting in the 1960s, rice had been cultivated in the area on a mere 46,000 ha, by 1990 that had multiplied more than six-fold to cover about 300,000 ha.



## 7.9 million ha

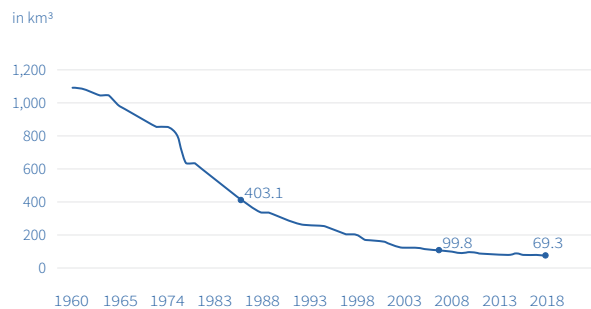
Size of irrigated agricultural area in 1990

△ +68% (1950: 4.7 million ha)

Back then, the results of the cotton harvest were considered a great success by the Soviet Union: Between 1960 and 1988, Soviet raw cotton production rose from just under 4.3 million tons to 8.7 million tons, and by the 1980s, the USSR had become the second largest cotton exporter in the world, largely on the backs of Uzbek workers.

However, the rapid agricultural expansion showed disastrous long-term consequences for the natural resources in the region. While cotton and rice plants are known to be robust, they demand large amounts of water — water that was drawn out of the delicate ecosystem around the Aral Sea. The drastically increased harvest of both cotton and rice therefore led to a massive exploitation of the region's water resources. As a result, the Aral Sea surface area shrank by 41% and its total volume dropped by 67%. Meanwhile, the salinity of its water tripled between 1960 and 1989. Today, the Aral Sea surface area amounts to only about 6,400 km<sup>2</sup>, less than one tenth of its original size.

#### Aral Sea water volume



Source: cawater-info

The drying up of the Aral Sea not only destroyed the region's ecosystem, resulting in the disappearance of more than 200 species of flora and fauna, but has left additional problems in its wake. In the 20th century, fertilizers, herbicides, pesticides and defoliant were heavily used in the agricultural sector. After being washed off with water, toxic substances flushed into lakes and the Aral Sea and settled at the bottom. After a significant portion of the lake dried up over the years, its ground was laid bare. The regular wind



and sandstorms in the region frequently pick up toxic substances in the dust and carry them as far as 300 km from the original sea bed. As a result, a number of related health concerns affected people living in the region over the past decades including stark increases in asthma, kidney stones, and eye diseases.

Uzbekistan has been carefully monitoring the long-term consequences and effects of the Aral Sea's disappearance and has debated a number of measures to mitigate them. The foremost goal is to prevent a further dehydration of the lake area. By introducing environmental innovations and new water management technologies, the Government of Uzbekistan is planning to transform the region into a socio-economic development zone and actively improve the Aral Sea's condition as well as associated living conditions in the area. For that purpose, Uzbekistan is collaborating with international banks and institutions as well as other countries in various initiatives. One example is the International Fund for Saving the Aral Sea (IFAS). The IFAS, a cooperation of multiple Central Asian states, aims at improving the ecological and socio-economic situation in the Aral Sea Basin by developing mutually acceptable mechanisms for integrated water resources management and environmental protection.



**100 million EUR**

Size of investment program by the European Investment Bank and the Uzbek Ministry of Investment and Foreign Trade to help save the Aral Sea

Furthermore, the European Investment Bank is partnering with Uzbekistan to prevent further climatic, environmental, economic and social damage in the area. The Bank and the Uzbek Ministry of Investment and Foreign Trade have recently signed a contract that paves the way for a 100 EUR million two-phase investment program to underline international efforts to save the Aral Sea. During the program's first phase, the outdated irrigation systems in the Amudarja river valley region will be restored and modernized to stop water leakages and evaporation. In stopping additional water outflow, the groundwater levels of the surrounding land are expected to decrease and further salinization of the land will be stopped. In a second phase, the salt-covered land will be restored to a normal level of salinization. Decreased water leakages and evaporation will also result in more water flowing back into the Aral Sea.

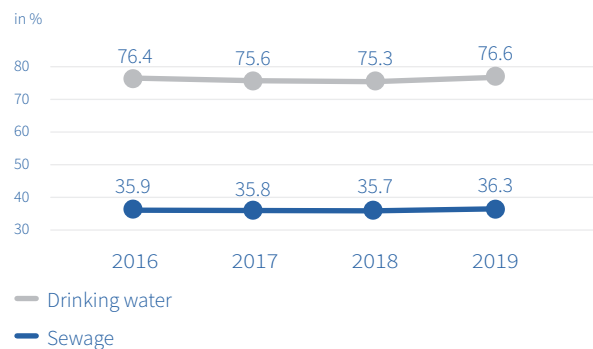


**6,000 km**

Total length of water supply network built (from 2015 to 2018)

Apart from the pressing problems the troubles of the Aral Sea pose, good water management is of high importance for the Government of Uzbekistan. This includes securing the availability of fresh water for all citizens and requiring efficient use. For this purpose, the Government of Uzbekistan has implemented a plan to conserve and manage water resources for sustainable development, availability and sanitation for all. The goal is to connect all households in the country to the sewerage system and modernize the existing infrastructure that is partly outdated and not well-maintained. As a result of investment programs on capital construction of centralized water supply facilities, 6,000 km of water pipes and water supply networks, 412 water intake wells, 305 water towers, 78 pumping stations and 569 energy-efficient pumps were built between 2017 and 2019, resulting in improved and safe water supply for an additional 2.1 million people. In the same period, eight more projects were implemented with international financial institutions funding totaling over USD 600 million. As a result, centralized water supply has risen steadily, covering 67.8% of the population in 2019 (64.5% in 2017). But no reason for the government to lean back yet and stop the investments: the target for 2030 is at 91.2%.

Households with direct access to drinking water and sewage



### 7.3.B Saving the climate: sustainable energy generation and use

Along with a dynamically growing economy, Uzbekistan's need for energy is constantly growing. The Ministry of Energy of Uzbekistan forecasts an average annual increase in electricity consumption in the range of 6 to 7% until 2030, doubling the 2019 demand of 60 billion kWh. To keep up with the rising demand while at the same time combating global warming, the Government of Uzbekistan has made sustainable power generation a top priority.

As of 2018, power generation in Uzbekistan relied on just three sources: gas-fired power plants make up for 73%, hydroelectric power plants for 16% and coal-fired power plants for 11%. By 2030, the power generation mix in Uzbekistan is planned to look a lot more diverse and less reliant on fossil sources, with power generation from renewable sourcing accounting for almost a third of all installed capacity.

#### Share of individual energy sources in Uzbekistan's energy production capacity

Energy Source	Energy Production Share 2018	Energy Production Share 2030*
Natural Gas	73.0	51.3
Coal	11.0	8.2
Atomic Energy	0.0	7.6
Wind Power	0.0	5.3
Solar Power	0.0	15.7
Hydropower	16.0	11.9

\*Projection

Source: Germany Trade and Invest

To achieve this ambitious goal, Uzbekistan is proceeding at high speed to build up renewable energy capacities. Several outstanding projects in the wind and photovoltaic (PV) energy sector are currently being developed and realized, one of which is the construction of one of the largest wind farms in the world in the Navoi region. The project will be realized by Masdar, a large developer of renewable energies from the United Arab Emirates, and is projected to reach a production capacity of 500MW. Masdar will invest around USD 110 million into the project. The wind park is projected to generate around 1.9 GW hours of electricity per year, providing affordable energy for more than 500,000 households, and is expected to be fully operational in 2024.



## 500MW

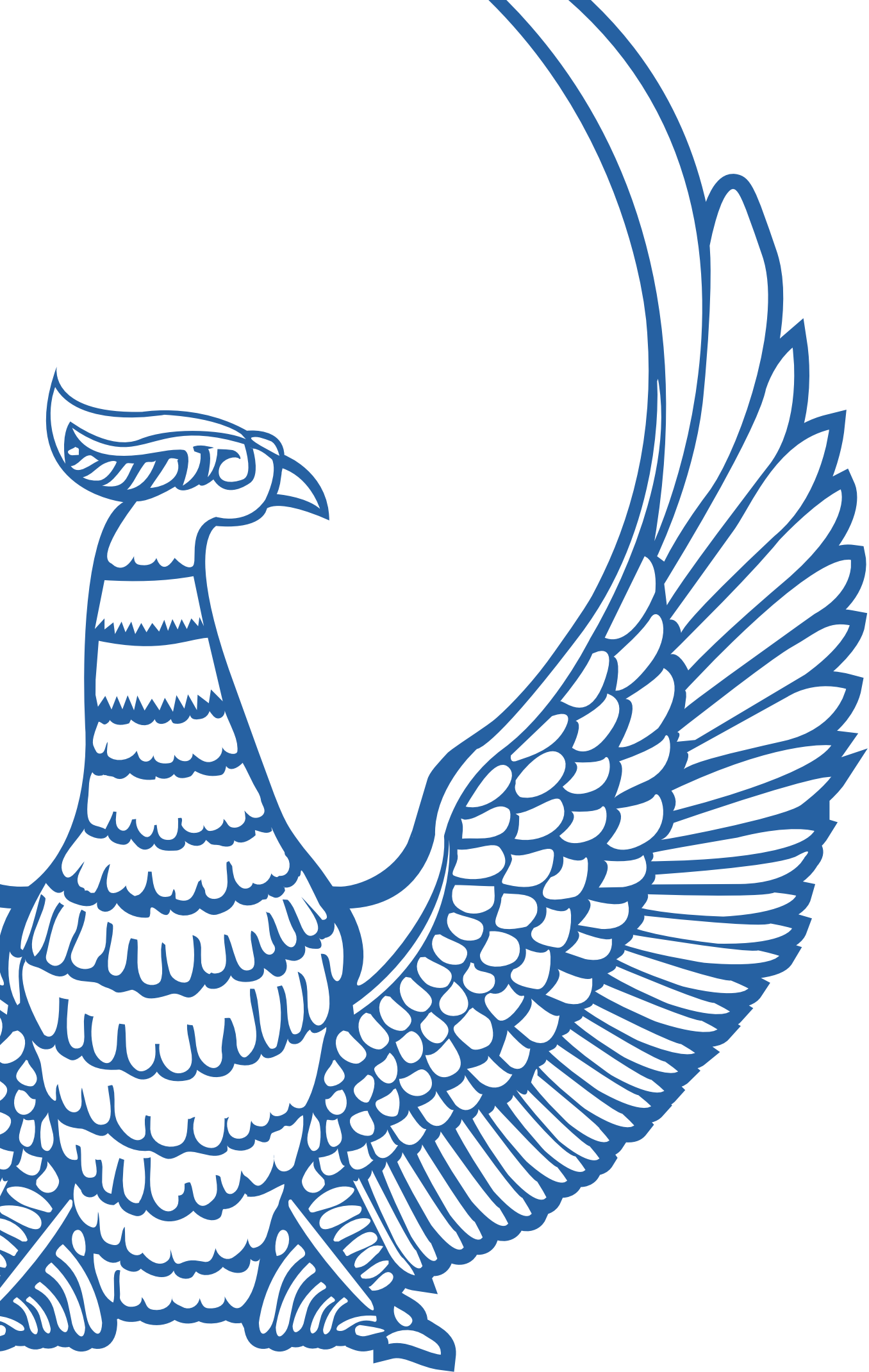
Projected capacity of the Masdar windfarm in Navoi by 2024, providing energy for half a million households

Masdar is also working on the construction of a 100 MW PV plant in the Navoi region, with an investment volume of up to USD 100 million. The plant is planned to become fully operational in the course of 2021. Another PV plant is currently being built by the French company Total Eren that is investing up to USD 100 million in the Samarkand region. The 100 MW PV plant will generate enough electricity to supply 150,000 people and is planned to be finished in the second half of 2021.

But not only when it comes to energy generation the Government of Uzbekistan is making great strides towards a more climate-friendly future. Saving energy is just as important — energy that doesn't have to be used is still the best climate-saving measure. A recent landmark resolution by the Uzbek president that was passed in August 2019 provided for a variety of requirements and measures to increase energy efficiency in Uzbekistan. Compulsory energy efficiency requirements were introduced for new buildings, the development of normative technical indicators for measuring the energy efficiency of production equipment and consumer goods announced, and the Ministry of Energy tasked with sanctioning legal entities for inefficient use of fuel resources by legal entities, irrespective of their ownership. At the same time, a key point was the provision of incentives for energy-efficient upgrades for individuals, with the Government of Uzbekistan taking on up to 30% of the acquisition costs for purchasing solar water heaters, energy-efficient gas-heating devices or other energy saving equipment.

Apart from its own efforts, Uzbekistan is also using the expertise of international experts to improve energy efficiency. One example is the collaboration with the European Bank for Reconstruction and Development (EBRD), with whose help the Government of Uzbekistan is seeking to reduce its economy's energy and carbon intensity and still too-inefficient use of existing energy resources. For this purpose, the EBRD is supporting Uzbekistan in a wide variety of fields, from modernizing inefficient gas pipeline structures responsible for valuable transportation losses to financing the energy and resource efficient modernization of municipal infrastructures (water and wastewater, district heating and lighting, urban transport etc.).





## Appendices

8.1 Tables

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8.2 SDG Index

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# 8. APPENDICES

## 8.1 Tables

### Agriculture

Total cotton production (in 480LB Bales)

Yield of cotton per hectare planted (kg/hectare)

Yield of wheat per hectare planted (kg/hectare)

Number of cotton clusters

Number of cotton pickers in million

Number of cotton pickers in conditions of forced labor

Ratio of cotton pickers in conditions of forced labor

Share of crop harvested using machines

Agricultural land with water saving irrigation technologies installed (in thousand hectares)

Agricultural land with drip irrigation technologies installed (in thousand hectares)

Energy Use at Pumping Stations (in billion kWh)

Salinized irrigated areas (in thousand hectares)

Areas with critical level of subsurface water (0-2 m, in thousand hectares)

Areas with strong and medium salinity (in thousand hectares)

Reclamation of land plots where cultivation was previously discontinued (in thousand hectares)

Share of irrigated areas with limited water availability

Share of primary and inter-farm irrigation canals using lining

### Education

Mean years of schooling (male)

Mean years of schooling (female)

Number of general education institutions

Number of students of higher educational institutions (male & female)

Number of students in professional colleges (male & female)

Number of students in academic high schools (male & female)

Number of educators and teachers by type of organization

Population with at least some secondary education (% ages 25 and older)

Population with at least some secondary education (% ages 25 and older; female)

Population with at least some secondary education (% ages 25 and older; male)

\* From 2020 onwards; projection

	2016	2017	2018	2019	2020*	2021*	2025*	2030*
	3,725	3,860	3,275	3,500				
	687	672	648	754				
		5,610	5,480	6,160	5,750	6,000		
		1	15	75	96			
	2.80	2.60	2.50	1.75				
	448,000	364,000	170,000	102,000				
	14.0%	13.0%	6.8%	5.9%				
			3.5%	5.0%	10.0%	20.0%	85.0%	
				128	250	350	1,000	2,000
				77	125	200	250	500
				8	7.6	7.3	7	6
				1,935	1,926	1,906	1,852	1,722
				1,051	988	945	859	773
				607	581	559	516	430
				48	58	42	151	
				13%	12%	11%	8%	4%
				34%	35%	36%	40%	46%
	12.15	12.32	12.52	12.60				
	11.20	11.30	11.30	11.30				
	9,719	9,718	9,774	10,090	14,253	14,518		
	268,281	297,689	360,204	440,991				
	1,358,064	1,077,364	656,297	239,239				
	101,339	85,798	71,809	43,193				
	593,409	598,966	615,236	634,970	147,690	172,333	206,025	
	99.9%	99.9%	99.9%	99.9%				
	99.9%	99.9%	99.9%	99.9%				
	99.9%	99.9%	99.9%	99.9%				

---

## Infrastructure and Digitalization

### Freight volume transported in mln. Tons

by railroad

by road

by pipeline

by air

Ranking in Global Logistics Performance Index

Houses with Drinking Water (%)

Houses with Sewage Access

Share of population with access to advanced internet coverage

Population with access to advanced internet coverage (in thousands)

Cost of internet tariff (for 1Mbit/s in USD)

Number of mobile phones registered (in thousands)

Share of population with mobile phone coverage

Population with mobile phone coverage (in thousands)

Active users of social media platforms (in millions)

Digital economy share in Uzbekistan's GDP

---

## Society and Governance

Number of NGOs registered

Development of Population (in million)

Expenditure on public education (and healthcare) (in billion soums)

Life expectancy

Staffing for labor market oversight

Staffing for environmental law enforcement

Number of labor inspectors

Number of inspections in budget organizations

Number of appeals

Ratio of cases prosecuted vs. cases reported (cotton)

Development of Labor Violation Appeals

Development of Labor Inspections

Development of Labor Violation Fines imposed

Development of Labor Violation Fines collected

Development of Labor Violation Fines handed over to the Bureau of Compulsory Execution

Score in Corruption Perception Index

Position in Press Freedom Ranking

---

\* From 2020 onwards; projection



	2016	2017	2018	2019	2020*	2021*	2025*	2030*
	1,132.5	1,146.2	1,243.0	1,319.8	1,224.9	1,353.7	1,591.6	
	67.6	67.9	68.4	70.1	68.9	73.3	79.7	
	1,002.8	1,013.1	1,102.2	1,177.7	1,156.1	1,280.3	1,511.9	
	62.2	65.1	72.4	72.0				
	0.265	0.264	0.131	0.104	0.128	0.117	0.523	
	118		99		88		71	
	76%	76%	75%	77%				
	35.9%	35.8%	35.7%	36.3%				
	28%	35%	48%	70%	90%	92	95%	
	8,993.7	11,429.8	15,962.6	23,607.4	30,628.8	31,874.3	34,176.3	
	157.6	91.5	30.3	10.1	5.5			
	20,791.2	21,993.1	21,410.8	23,069.0	24,152.5	24,600.0	25,300.0	
	91%	92%	94%	96%	98%	99%	99.4%	
	29,229.7	30,044.2	31,260.2	32,375.9	33,531.4	34,299.5	35,759.2	
		0.80	1.30	2.00	3.20			
				2.2%			5.0%	10.0%
	8,700		9,235	10,501				
	31.85	32.39	32.96	33.58				
	40,911.3	49,346.3	79,736.1	118,008.6				
	73.8	73.7	74.6	75.1				
	2,010	1,955	2,327	2,327	-			
	3,984	4,817	5,069	4,833	4,891			
			258	346				
	7,351	11,506	13,257	21,172				
	7,580	10,199	15,142	18,332				
				96.3%				
	7,580		15,142	18,332				
	7,351	11,506	13,257	21,172				
	1,700	2,220	4,610	13,410				
	1,250	1,550	3,050	10,180				
	440	680	1,570	3,230				
	21	22	23	25				
	166	169	165	160	156			

---

## **Economy**

GDP (in billion UZS)

GDP Growth

Inflation

Export (million \$)

Import (million \$)

Size of the banking sector as share of GDP

Percentage of assets managed by banks with government participation

Total number of household depositors (with bank cards)

Number of household deposits in banks per 100,000 adults

Total number of household borrowers

Size of the workforce (in thousands)

Unemployment rate

Expenditure on R&D as percentage of GDP

Total expenditure on R&D in billion UZS

### **Corporate income tax**

General rate

Commercial banks

VAT

Dividend tax

Personal income tax

Social payments

Property tax

Social payments to pension fund

Corporate payments to other funds

Number of FDI projects

Volume of FDI projects (in million \$)

---

## **Environment**

Pollutants emitted into the atmosphere (in thousand tons)

Number and area of forest fires

CO2 intensity of economic output (tonnes of CO2 per \$1000)

Aral Sea Surface in Hectares

System of lakes Sudochie

Lake Rybachie

Lake Moynak






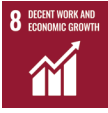







System of lakes Dziltyrbas

---

\* From 2020 onwards; projection

	2016	2017	2018	2019	2020*	2021*	2025*	2030*
	242,496	302,537	406,649	511,838				
	6.1%	4.5%	5.4%	5.6%				
	5.7%	14.4%	14.3%	15.2%				
	12,094.6	12,553.7	13,990.7	17,458.7	17,600			
	12,137.6	14,012.4	19,439.2	24,292.3				
	34.67%	55.07%	52.72%	53.28%				
					85%		40%	
	14,391	16,440	17,379	17,934				
	90,033	107,476	99,283	112,773				
	1,182	1,580	2,156	3,101				
	18,489	18,666	18,830	19,008	19,296	19,530	20,231	
	5.3%	5.8%	9.3%	9.0%	9.4%	9.0%	8.3%	
	18%	16%	10%	12%				
	440.3	470.9	528.8	602.8				
		7.5%	14%		15%			
		8%	22%		20%			
		20%	20%		15%			
		10%	10%		5%			
		7.50%	22.50%		12%			
		25%	25%		12%			
		5%			2%			
		8%	8%		abolished			
		1.6% + 1.4% + 0.5%	3.20%		abolished			
	95	111	449	871				
	1,660	2,247	1,133	4,205				
	1,008.09	853.46	883.72	952.78				
	6 (3.9 ha)	11 (24.16 ha)	8 (53.9 ha)					
	0.49	0.46	0.43	0.4				
	172,366	175,759	186,386	183,050	167,132	170,500	172,500,00	178,500
	50,710	55,231	62,838	59,720	43,852	48,000	50,000,00	55,000
	8,356	7,905	8,786	9,160	8,892	9,000	9,000,00	9,000
	14,891	15,145	15,768	15,868	15,558	15,500	15,500,00	16,000
	98,409	97,478	98,994	98,302	98,830	98,000	98,000,00	98,500

## 8.2 SDG Index

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# IMPRINT

## **Publisher**

The Republic of Uzbekistan

## **Responsible for the publisher**

Umurzakov Sardor Uktamovich

Deputy Prime-Minister for Investments and Foreign  
Economic Affairs

## **Ministry of Foreign Investment and Trade**

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## **Concept, text and production**

cometis AG

Xenophon Strategies, Inc.

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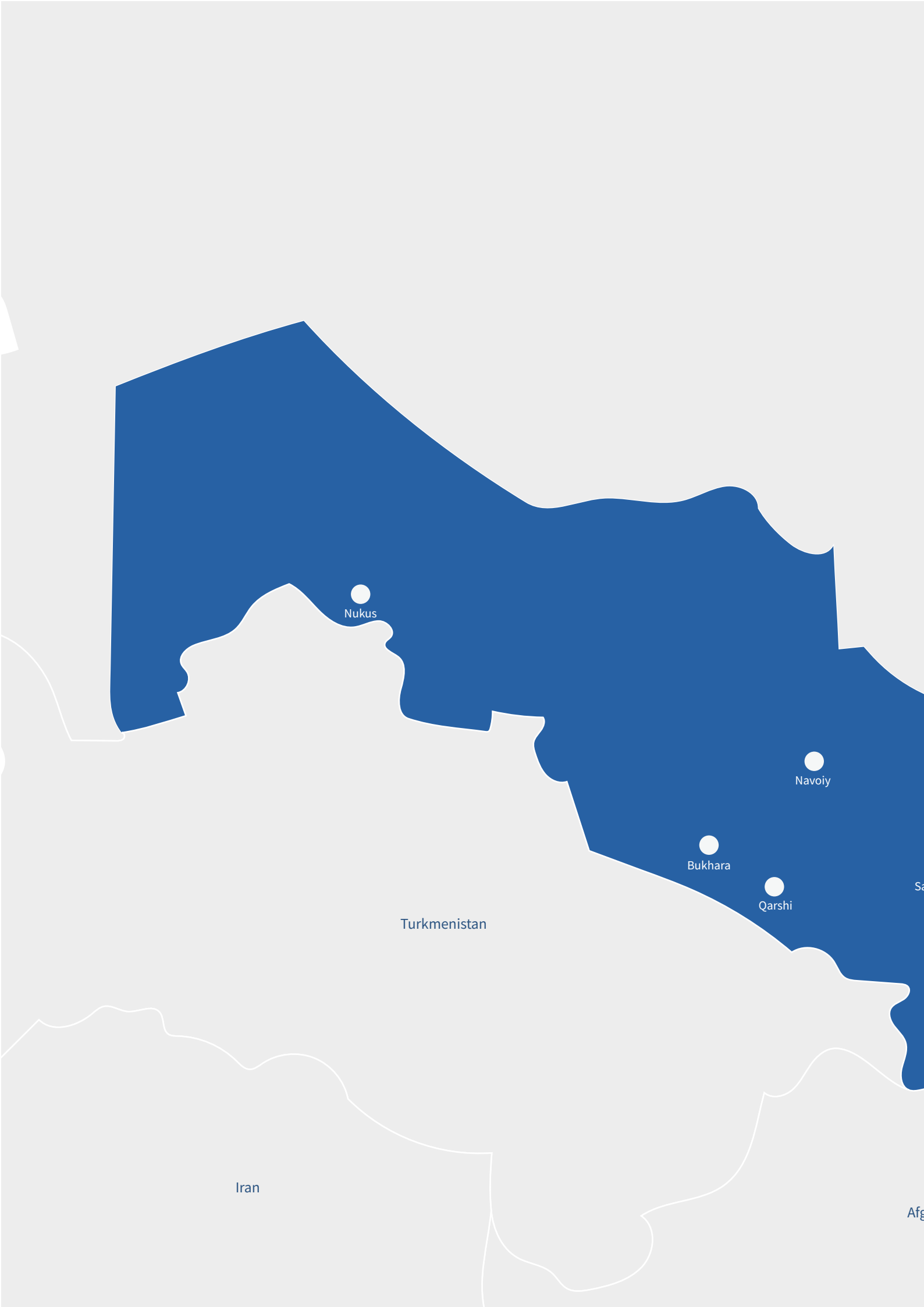
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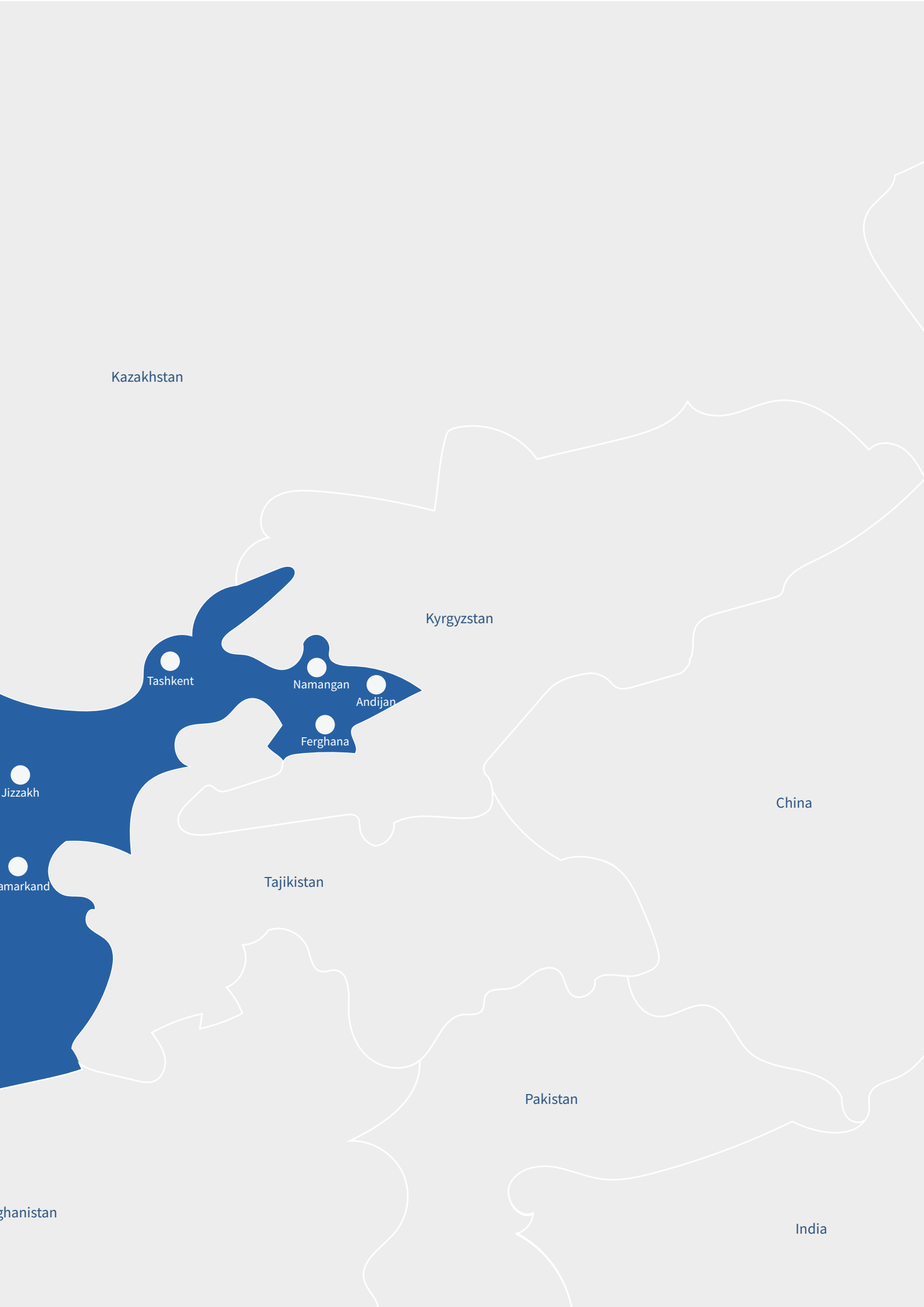
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