



Uzbekistan Country Strategy 2024-2029

Approved by the Board of Directors on 24 January 2024



European Bank
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		GET	Green Economy Transition		
		GHG	Greenhouse Gas		
		GVC	Global Value Chains		
		ICA	Industry, Commerce & Agribusiness		
		ICT	Information and Communications Technology		
		IEA	International Energy Agency		
		IFC	International Finance Corporation		
		IFI	International Financial Institution		
		ILO	International Labour Organisation		
		IMF	International Monetary Fund		
		IPO	Initial Public Offering		
		IT	Information Technology		
		MSME	Micro, Small and Medium sized Enterprise		
		NDCs	Nationally Determined Contributions		

Uzbekistan remains committed to the political principles of Article 1 and their application as set out in the Articles Establishing the Bank, although progress since the previous Country Strategy for Uzbekistan was approved in September 2018 has been uneven. Progress was more consistent in the first part of the previous Country Strategy period, but slower and patchier in the second. Before the Bank re-engaged in 2017, Uzbekistan's commitment to and application of Article 1 principles had been minimal. There has been significant progress since then, but major concerns remain.

Uzbekistan has benefited from opening the economy and embarking on ambitious market reforms in the past five years, reporting strong growth that was largely uninterrupted by the global pandemic and Russia's war on Ukraine. Current and capital accounts were liberalised, trade restrictions were removed, and relationships with neighbouring countries have substantially improved. These reforms facilitated the fast expansion of agriculture and manufacturing, as well as robust infrastructure investments. The share of the private sector in the economy has increased, and considerable progress has been achieved on the green agenda, including a remarkable expansion of renewable power production. Uzbekistan has taken important steps to close regional gaps, root out violence against women and promote gender inclusion, but the criminalisation of same-sex relations between men in the Criminal Code was unwelcome.

Major reform challenges, however, remain across all economic sectors. Political economy constraints and limited government capacity hinder the ability to deliver on more complex reforms, including further improvements in strengthening economic governance and business conduct. The economy continues to be dominated by large state-owned companies and financial institutions, and SMEs' development is hindered by inadequate skills, high cost of finance, and remaining significant administrative constraints. Despite progress in promoting women's rights, the country continues to lag on women's participation in politics and the economy. The country also faces rising climate change risks, including high volumes of CO2 emissions, increasing water scarcity, coupled with continued low energy, water and overall resource efficiency.

In the context of continued reform commitment and delivery by Uzbekistan, EBRD is well placed to provide support by advising on and assisting with the implementation of the needed reforms and by investing with increased mobilisation of commercial financing. The first focal area is the decarbonisation of the energy production and other key economic sectors, reduction of the country's vulnerability to climate change, as well as a major uplift in the services of municipal and environmental utilities. Another priority area will be the Bank's support for the overall expansion of the private sector, as the engine of growth, innovation and sustainable job creation. Considering the current share of private sector in the economy, such support will be comprehensive: it will be provided to local large and SME companies and foreign direct investment alike and include the acceleration of the PPP programme as well as the transformation and privatisation of state-owned enterprises and banks. The third priority area for EBRD engagement is related to creating a favourable environment for the private sector and overall economic development: support to improve governance practices, better quality of institutions, and a stronger rule of law as well as Uzbekistan's connectivity infrastructure, both regional and global, both transport and energy, as well as policy measures and financing tools to enhance the country's trade relations and enhance its export potential, in particular. Thus EBRD strategic priorities in 2024-2029 are:

- Support Decarbonisation, Green Cities, Water Efficiency, and Cleaner Energy
- Develop Private Sector and Foster Employment, Skills, Inclusion and Digital Transition
- Promote Economic Governance and Business Climate Improvements and Enhance Infrastructure Connectivity

Uzbekistan – EBRD Snapshot



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EBRD investment activities in Uzbekistan (as of December 2023)

Portfolio	€2,379m	Active projects	81
Equity share	3%	Operating assets	€958m
Private Sector Share ¹	59.3%	Net cum. investment	€4,286m

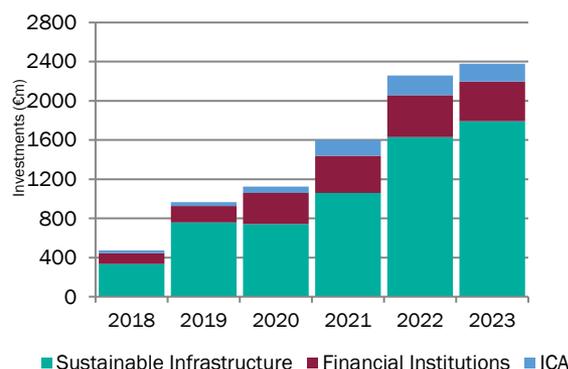
Uzbekistan Context Figures

	Uzbekistan	Comparators
Population (million) ³ (2022)	35.27	Kazakhstan (19.74) Kyrgyz Republic (6.8)
GDP per capita (PPP, thousand USD) ³ (2022)	9.63	Kazakhstan (30.54) Kyrgyz Republic (5.93)
New Business Density ⁴ (New registrations per 1,000 population, 2020)	2.7	Kazakhstan (3.5) Kyrgyz Republic (1.3 in 2016)
Unemployment (%) ³ (2022)	8.9	Kazakhstan (4.9) Kyrgyz Republic (9.0)
Youth unemployment (%) ⁵ (2022)	13.8	Kazakhstan (3.8) Kyrgyz Republic (8.8)
Female labour force participation (%) ⁵ (2022)	40.01	Kazakhstan (65.1) Kyrgyz Republic (45.4)
Energy intensity TES/GDP (MJ/2017 \$) ⁶ (2020)	7.54	Kazakhstan (5.78) Kyrgyz Republic (5.09)
Emission intensity/GDP (kgCO ₂ /2017 \$) (2020) ⁷	0.46	Kazakhstan (0.42) Kyrgyz Republic (0.29)

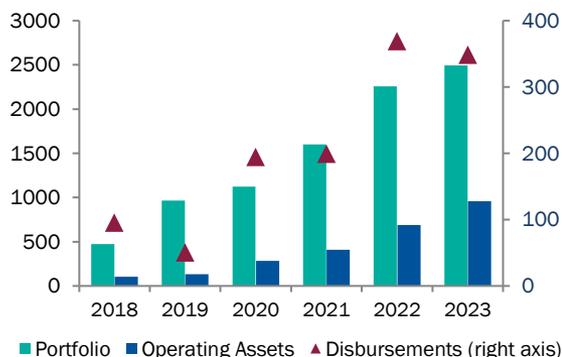
ABI and operations



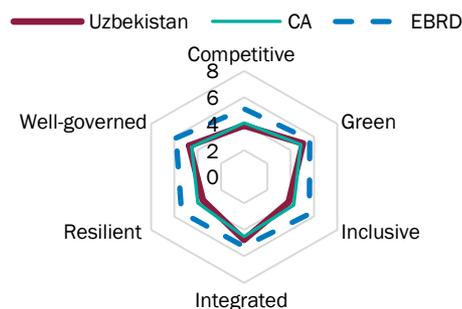
Portfolio composition



Portfolio dynamics



Transition Gaps²



1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2022-2023; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA; 7 World Bank

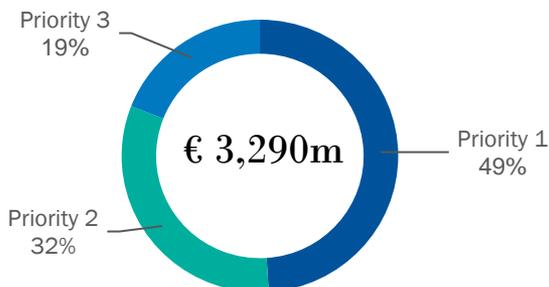


1. Implementation of Previous Strategy (2018-2023)

1.1. Key Transition Results Achieved during Previous Strategy (1/2)

Strategic alignment 2018-2023

Cumulative Annual Business Investment (ABI)



Technical assistance and investment grants

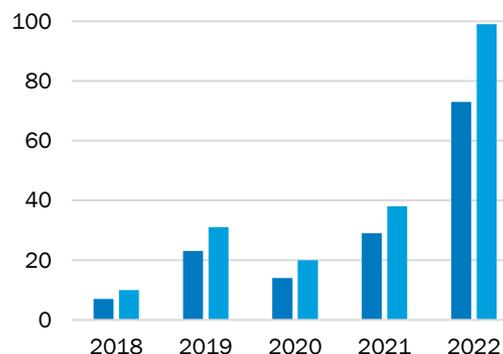


Transition impact performance¹



Priority 1 | Enhancing competitiveness by strengthening the private sector's role in the economy

Key quantitative results



Key transition results

- Carried out more than 230 SME advisory projects covering different sectors, including over 70 with companies owned by women entrepreneurs and circa 40 in rural areas. Additionally, delivered trainings to over 380 individuals from TFP partner banks, prospective partner banks and the Central Bank of Uzbekistan, and provided 50 e-learning modules in 2023
- Improved access to finance for over 2,000 SMEs, providing EUR 380m credit lines through 9 partner banks and Uzbek leasing. Also carried out 50 training sessions and workshops for SMEs and local business consultants, including 30 training sessions for women-led SMEs under the WiB business programme
- Spurred digital finance through equity investment in Uzbekistan's first fully digital bank, TBC Bank
- Helped the development of financial and capital markets by leading the formulation of the Capital Markets Development Strategy, adopted in 2021, and investing in a USD 20m cross-currency swap to facilitate currency risk management
- Invested in key local businesses to expand and modernize business operations, including through a USD 40m equity investment at grocery retail chain Anglesey Food and a USD 15m loan for established pharmaceutical Meros Pharm
- Supported improved corporate governance of key industrial SOEs and privatisation of state-owned banks through technical assistance and capacity building programmes including to the State Assets Management Agency
- Strengthened public governance and improved the business environment through sustained policy advice:
 - setting up the Advisory Council on Women Entrepreneurship to promote enhanced economic opportunities for women
 - preparation and adoption of the strategy for reform and governance of state-owned enterprises in 2021-2025 (de facto State Assets Ownership policy) and the law on state property management
 - establishment of the Foreign Investors Council in 2022, to improve business environment and catalyse FDI

1. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio



1. Implementation of Previous Strategy (2018-2023)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

Priority 2 Promoting green energy and resource solutions across sectors

Key quantitative results

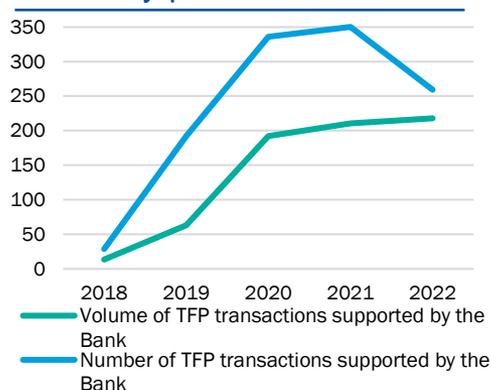
Results Indicators	2018-2022
Primary energy saved (GJ/year)	27,926,076
Water saved (m3/y)	110,630,504
CO2e emissions reduced (ktonnes/year)	3,340
Renewable energy capacity installed (MW)	1,700

Key transition results

- Co-financed the first two privately owned renewable energy projects in the country – two solar photovoltaic plants in the Navoi and Samarkand regions of combined 200 Mwh solar capacity - equivalent to heating 20,000 homes for a year
- Invested USD 74m for a 500 MW greenfield wind power plant in the Navoi region, which introduces the 'Identiflight' system for the first time in Central Asia to monitor and detect species at risk of collision with wind turbines
- Launched the Green Economy Financing Facility, supporting SMEs to invest in climate change mitigation and adaptation technologies
- Advised on the development of a transparent and competitive regime for renewable power generation through auctions and led reform on wind energy auctions
- Drafted low carbon pathway aimed at achieving carbon neutrality in the electricity sector by 2050, adopted by the Government, and catalysed Uzbekistan's participation in the Global Methane Pledge
- Supported clean water supply and wastewater infrastructure development investing USD 50m in Surkhandarya and USD 70m in Namangan regions, that will provide access to good quality water to 230.000 people and reduce yearly water losses across both regions
- Started developing a Green Cities Action Plan for Samarkand and financed the acquisition and deployment of e-buses and e-bus depot infrastructure in Samarkand to improve public transportation services and green public transportation services

Priority 3 Supporting increased regional and international cooperation and integration

Key quantitative results



Key transition results

- Facilitated regional and international trade through TFP, completing over 1,100 transactions totalling over EUR 690m, and coupling these efforts with in-person trainings for over 380 individuals from TFP partner banks, prospective partner banks and the Central Bank of Uzbekistan, and 50 e-learning modules in 2023
- Supported enhanced energy connectivity by signing EUR 71m for Navoi Transmission to upgrade the regional electricity transmission network
- Strengthened tourism inflows through investments in Khiva hotels and restaurants and finalised the Khiva development masterplan under the Integrated Cultural Heritage Framework
- Progressed on upgrading the transport infrastructure to enhance regional connectivity, including advising on the Tashkent - Samarqand toll road PPP
- Supported the development of the PPP Law adopted in 2019, strengthening the legal and institutional frameworks for public-private partnerships
- Prepared the EU-funded study on Sustainable Transport Connections between Europe and Central Asia with prioritisation of soft measures and investments



1. Implementation of Previous Strategy (2018-2023)

1.2. Challenges to Implementation and Key Lessons

Context for implementation

The previous strategy period coincided with Uzbekistan’s progressive opening of its economy as it embarked on ambitious economic reforms, including currency liberalisation, resolute support for private sector expansion, and a reduction of state intervention in the economy. The previous strategy period also coincided with a shift in foreign policy towards constructive, active relations with neighbours as well as an overall opening and proactive outreach to partners globally. Foreign and domestic investment led to expansion in agriculture, manufacturing and renewable energy, while growth accelerated. Notwithstanding the significant progress in the past five years, Uzbekistan still faces substantial structural challenges, primarily in the areas of improving the business environment for private companies, changing the culture of directed lending at state-owned banks, improving SOE and SOB governance, enhancing cross-border connectivity and integration, deepening financial and capital markets, as well as scaling up green technology and renewable energy as well as innovation. In addition, the country faces increasing demographic pressure, and high vulnerability to climate risks. Since its re-engagement in Uzbekistan, the Bank has committed over EUR 3.4 billion across 115 operations, with a focus on green economic transition, private sector competitiveness, resilient financial and banking sector, increasing regional integration and sustainable infrastructure. Alongside investments, the EBRD has provided wide ranging policy advice to support the government’s reform agenda and business advice to SMEs.

Implementation challenges

- Frequent changes to the frameworks related to exercising ownership rights and privatisation of SOEs and SOBs, and low capacity of key stakeholders have caused delays with transformation and privatisation of major SOEs and SOBs.
- Limited institutional capacity and frequent reshufflings within government structures remain key barriers to reform and sovereign portfolio implementation.
- Lack of a proper PPP framework and implementation capacity limit private sector participation and creates substantial investment gaps, particularly in infrastructure development.
- Limited availability of local currency due to capital restrictions and shallow money and FX markets. Fragmented capital market infrastructure, though improved recently, still does not allow foreign investors to access domestic market.

Key lessons & way forward

- Persevere with policy advice to the authorities and provide assistance to well selected, specific SOBs/SOEs to support the transformation, improved governance and privatisation of SOEs and SOBs, capitalising on recent privatisation successes and reform momentum (e.g. banking sector reform, intention to scale up participation of independent board members at SOEs/SOBs).
- Work with other IFIs to present proposals to the authorities on streamlining project preparation and implementation for public infrastructure investments.
- Leverage existing PPP law, help address any remaining shortcomings in the regulatory framework and scale up PPP preparatory advice to launch new, highly visible PPP investments.
- Continue supporting the development of financial and capital markets working with the central bank and large Uzbek banks.



2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Uzbekistan – Main Macroeconomic Indicators

	2019	2020	2021	2022
GDP growth (% y-o-y)	5.7	1.9	7.4	5.7
CPI inflation (% avg.)	14.5	12.9	10.9	11.4
Government balance (% of GDP)	0.3	-3.3	-4.6	-4.2
Current account balance (% of GDP)	-5.6	-5.0	-7	-0.8
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	-3.8	-2.9	-3.3	-3.1
External debt (% of GDP)	43.6	60	62.3	64.4
Gross reserves (% of GDP)	48.6	57.9	50.8	44.5
General government gross debt (% of GDP)	28.5	37.4	36.6	34.9
Unemployment rate (%)	9.0	10.5	9.6	8.9
Nominal GDP (\$bn)	60.2	60.2	69.6	80.4

In 2022, the Uzbek economy posted broad-based growth of 5.7 per cent, supported by significantly improved external and domestic demand conditions. Exports of goods and services added 15.9 per cent year on year, with particularly large increases in such categories as textile, fruit, copper pipes, and electrical appliances (mostly to Russia). Domestic demand was boosted by a surge in money transfers and remittances (+110 per cent year on year in 2022), as well as relocation of Russian companies and individuals. Growth continued in January-September 2023. Real GDP rose by 5.8 per cent year on year in this period, supported by growth in agriculture (+4.1 per cent year on year), services (+12.1 per cent), industry (+5.7 per cent), and construction (+5.6 per cent).

Inflation reached double digit levels in 2022 and stood at 9.0 per cent as of August 2023. With inflationary pressures receding, the central bank lowered the policy rate by 100 basis points to 14 per cent on March 16, 2023 in order to support economic activity.

Standing at US\$ 31 billion in September 2023, international reserves decreased by 13.2% since the beginning of the year. However, they remain sufficient to ensure adequate external buffers. As estimated by Fitch, the budget deficit was around 3.9% of GDP in 2022 and is expected to expand to 5.1% in 2023, and tighten to 4.1% in 2024.

Uzbekistan's fundamentals (strong external and fiscal buffers, low government debt, a young and industrious labor force, a relatively diversified structure of the economy and external trade) bode well for the country's ability to weather further global and regional shocks. Overall, the economy is projected to grow at 6.5 per cent in both 2023 and 2024. Continued relocation of foreign companies, well-managed privatisations and business climate reforms are potential upsides (particularly when it comes to SME development). The possibility of Russia's war in Ukraine further disrupting supply chains and reversing the positive trend in remittances would worsen the outlook.

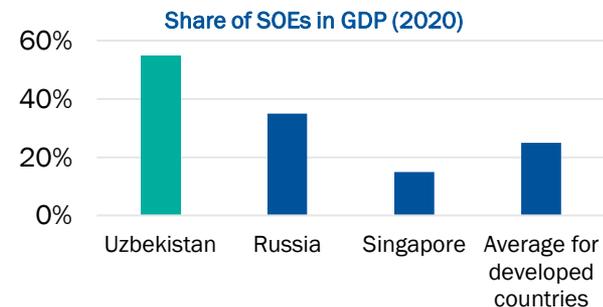


2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive (3.69)

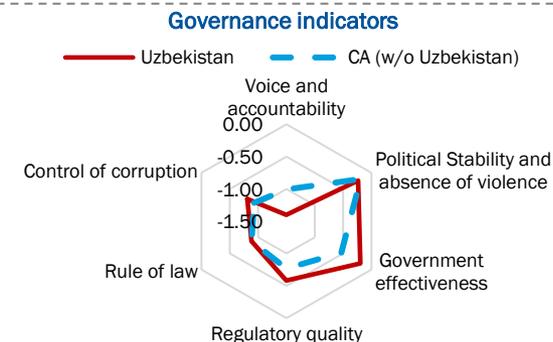
- The **private sector's share in the Uzbek economy has increased** since 2016, as reflected in the tripling of private sector's credit in GDP, but large SOEs and SOBs still account for more than 50 per cent of GDP. High levels of concentration and domination **by SOEs** in critical industries, such as telecoms, construction and construction materials create a **tilted playing field** for SMEs.
- Low labour costs**, while a short-term competitive advantage, create a disincentive for investment in fixed assets and automation, **slowing down gains in labour productivity**.
- The number of operating SMEs has more than doubled in 2016-2021, in part due to tax incentives for **artificial fragmentation**. Despite government support measures, **SME innovation and export capacity remains subdued**. As of Q3 2022, only 27.4 per cent of SMEs engaged in export activities.
- Large Uzbek businesses are **held back by skills deficits and cost of finance**. **Informal competitors and access to electricity** are major constraints for **SMEs**. Tax rates is the #1 issue for all.



Source: SAMA

Well-governed (4.71)

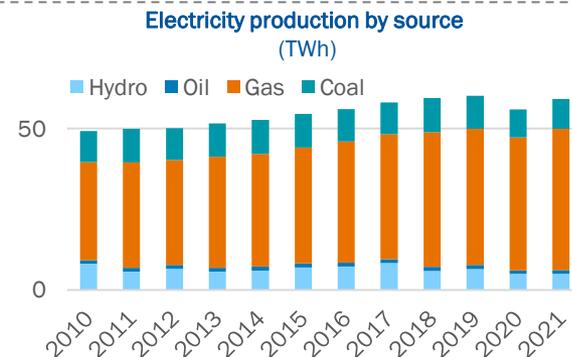
- Uzbekistan performs similarly to its neighbours on most dimensions of WB Governance indicators.**
- Despite significant progress with judicial reforms, including the creation of independent administrative courts, increased salaries and improved selection of judges, rule of law needs further strengthening with a focus on corruption and lack of transparency in government and SOE procurement.
- Government capacity is limited** due to **ineffective and unstable institutional structures and high staff turnover**, hampering the country's ability to deliver on key reforms and the quality of government services. .
- On the positive side, **the country outperforms the region, comparators and EBRD country averages when it comes to online services and e-government participation**, reflecting significant advancement on the digitalization agenda



Source: World Bank's Worldwide Governance Indicators 2021

Green (5.04)

- In 2016-2021, Uzbekistan made **significant progress on the green agenda**, driven by improvement in vehicle emission standards, commitment to decrease emissions, as well as revision of the Nationally Determined Contributions (NDCs)
- The government announced **ambitious RE investment plans for 2022 and beyond**, adopted an LCP for the power sector, and pledged to reduce methane emissions by 30 per cent (relative to 2020) by 2030.
- High volumes of CO2 emissions (relative to value added) reflect a **lack of energy efficiency**, requiring a massive effort to modernise infrastructure (e.g. pump stations serving the country's irrigation system) and grids. The grid in Uzbekistan currently has limited capacity and multiple bottlenecks, which results in occasional blackouts affecting citizens and businesses across the country, and present a major constrain for taking on renewable projects.
- Electricity and heat generation** is dominated by **natural gas**. The use of renewable energy is very low, but government has accelerated its efforts to develop alternative energy sources. Preliminary data suggest that electricity generated by solar plants increased from 49 million kWh in 2021 to 445.7 million kWh in 2022.



Source: Our World in Data



2. Economic Context

2.2 Key Transition Challenges (II/II)

Inclusive (3.84)

- Uzbekistan's new leadership has brought strong commitment to the inclusion of women, resulting in a series of legal reforms seeking to guarantee equal rights and opportunities for women. However, **the country continues to lag on women's actual participation in politics and the economy.** There has been no progress on LGBT rights.
- Large **disparities in the country's regional development** are another major concern, reflected in **highly unequal employment opportunities, supply of infrastructure and electricity, and access to finance.**
- The banking sector has a significant role to play in supporting women-led MSMEs, but **operational deficiencies persist.** Very few banks offer tailored products for women-led businesses, collect sex-disaggregated data on their clients or conduct regular market/customer segmentation studies.
- The country's population growth far exceeds the pace of job creation, putting **enormous pressure on the labour market, depressing wages and pushing young workers into migration.**

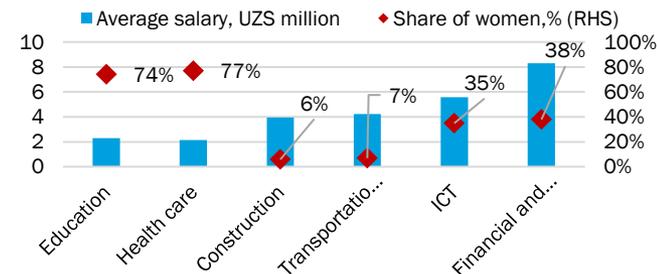
Resilient (3.57)

- Uzbekistan has unbundled its energy monopoly. This, together with firm policy commitment to transition to clean energy, fostered private sector participation in electricity generation (particularly in wind and solar). However, **in the absence of tariff reforms as well as further regulatory and institutional changes, the system remains fragile, inefficient and thoroughly dependent on public investment and subsidies.**
- Ensuring **sufficient supply of water resources is a major challenge** in the absence of transboundary arrangements. Access to **drinking water is shrinking**, and is likely to become a significant issue in the medium term. **Irrigation systems are extremely inefficient, requiring massive investment.**
- Uzbekistan's financial markets are at an early development stage, with all segments lacking depth and liquidity. **Financial sector is dominated by state-owned banks (SOBs),** which so far have been disengaged from the capital market.
- Access to local capital markets is very limited for foreign investors due to absence of custodians, disconnection from international clearing systems, restrictions on the repatriation of funds, complicated procedures of account opening

Integrated (4.75)

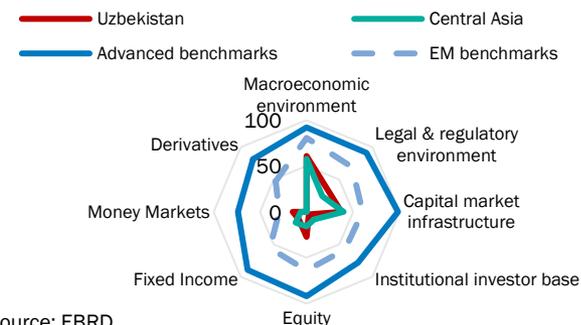
- As a double-landlocked country, Uzbekistan has to attach utmost importance to its **transport connectivity development.** Addressing **inefficiencies in customs clearance and border management** would help develop the country's international logistics performance. Uzbekistan has to attach utmost importance to its transport connectivity development. The country's potential is hampered by the **state of its transport network, especially in the regions, an aging truck fleet, a lack of specialized rolling stock, and limited funding, and cross-subsidisation in tariffs.**
- Uzbekistan's progress in ICT development remains subdued. **Lack of competition in telecom services hinders ICT sector's development.** Some services, such as broadband coverage, are only available in urban areas. Despite the country's high ambitions for improving its infrastructure, **lack of a proper PPP framework** (bureaucratic fragmentation and lack of inter-ministerial coordination) **limits private sector participation in infrastructure development,** resulting in increased budgetary pressures.

Average salaries and share of women in sectors,%



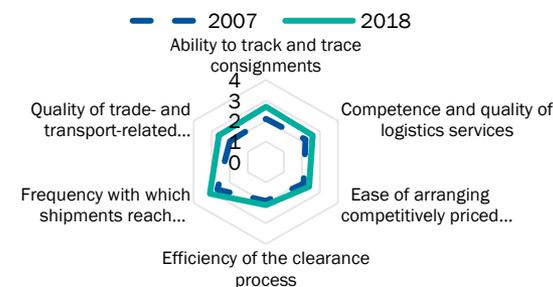
Source: State Committee of the Republic of Uzbekistan on Statistics

Financial Market Development Index



Source: EBRD

Logistic Performance Index
LPI sub-scores (1=low to 5=high)



Source: World Bank

3. Government Priorities and Stakeholder Engagement



3.1 Government Reform Priorities

Centred around seven pillars, the **Development Strategy for the New Uzbekistan 2022-26** focuses on: **1)** Establishing a free society, and increasing the role of local governments through decentralisation; **2)** Strengthening the rule of law; **3)** Pursuing economic development and rapid growth; **4)** Implementing fair public policies and ensuring human capital development; **5)** Safeguarding national interests; **6)** Pursuing international cooperation through a multi-vector foreign policy; **7)** Strengthening security and defence. The Strategy Document includes, in particular, assistance to small and medium-sized businesses, attraction of foreign investment to create jobs and reduce unemployment, acceleration of privatisation and combating monopoly, and raising people's living standards.

The government also set out an ambitious roadmap to achieve the following targets to achieve by 2030: halving the poverty rate; sustainable agricultural development to strengthen food security; streamlining existing support mechanisms; a 1/3 reduction in maternal mortality; rooting out violence against women and children; integrating gender equality principles; increasing water efficiency; achieving full access to reliable and affordable energy; and a 160 per cent increase in per-capita GDP.

Alongside these goals, the **Digital Uzbekistan 2030 Strategy** sets out five priority areas for achieving digital transformation in the areas of digital infrastructure, e-Government, digital economy, development of a national IT sector and IT education. Similarly, the **Strategy for the Transition to a Green Economy for 2019-30** formalises Uzbekistan's commitment to improving energy efficiency, rationalising consumption and conservation of natural resources, reducing greenhouse gas emissions, providing access to green energy, creating jobs and ensuring resilience to climate change.

In 2022, President Mirziyoyev signed a Decree on “**additional measures to further reduce state participation in the economy and accelerate privatisation**”, which sets out a privatisation timeline for different SOE and SOBs.

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Commercialisation and financial sustainability of key utilities and municipal operators, including through tariff reform
- Reforms and investment in the water sector with focus on resilience and resource management
- Promotion of energy efficiency and green economy solutions, including strengthening of institutional capacities and regulatory support to scale up investment in renewables for net zero by 2050
- Strengthened capacity of financial institutions, including through transformation and privatisation of selected SOBs, digitalisation and product innovation (factoring, supply chain finance)
- Development of effective mechanisms for public-private partnerships
- Enhanced financial and business advisory support for small businesses, including through the development of aggregators
- Improvement of the business environment through FIC and other platforms for government-private sector dialogue

3.3 Key Messages from Civil Society to EBRD

- Accelerate structural reforms and assist building institutional capacity
- Need to foster innovative business in the country
- Need to invest in industrial/service capacity in regions, including smaller cities and rural areas, to boost employment, particularly for youth
- Take into consideration and promote equal access to public services for all, including people with disabilities, especially to public transport, digital only public information, and skills development
- Climate change affects access to water with significant regional differences, including net incomes impact, and requires careful regulation and introduction of advanced technologies
- Facilitate equal educational and employment opportunities for women across the country including access to business and digital skills
- Promote transparency and accountability in public procurement and PPPs, and enhance related monitoring capacity



4. Defining Uzbekistan Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2024-2029)	What We Want to see in 2029
<ul style="list-style-type: none"> • CO2 emissions continue to be high. • Energy system is fragile and inefficient, and dependent on public subsidies. • Electricity and heat generation is dominated by natural gas. • Ensuring sufficient supply of water resources is a major challenge. • Access to drinking water is shrinking and irrigation systems remain inefficient. • Low level of energy and resource efficiency across the economy. 	<ul style="list-style-type: none"> • Robust commitment to decrease emissions, reflected in the revised Nationally Determined Contributions. • Ambitious RE investment plans. • Low Carbon Path for the power sector, which can be replicated in other sectors. • Pledge to reduce methane emissions by 30 per cent during 2020 - 2030. • Improved regional water and energy cooperation. • Government facilitation of climate change relevant skills development. 	<ul style="list-style-type: none"> • Strong record of climate funding mobilisation, in areas of energy efficiency, renewable energy, green banking, green cities, climate resilience and green bonds. • Effective delivery of sustainable energy, transport, irrigation and municipal infrastructure. • Co-lead in the preparation of the long-term decarbonisation strategy and leading decarbonisation strategy in some of the industrial sectors. 	<p>Support Decarbonisation, Green Cities, Water Efficiency, and Cleaner Energy</p>	<ul style="list-style-type: none"> • Progress with decarbonisation of key economic sectors / Increased share of renewable energy in power generation • Reduced vulnerability to climate change and improved municipal infrastructure • Improved resource and energy efficiency
<ul style="list-style-type: none"> • High population growth puts pressure on the labour market, depressing wages and encouraging emigration. • Large disparities in regional development, highly unequal employment opportunities, limited SME access to finance, and low participation of women in the economy. • ICT sector is underdeveloped, and broadband coverage limited. • Innovation and export capacity remains subdued. Limited FDI inflows. 	<ul style="list-style-type: none"> • Ambitious market reforms implemented in the last 5 years. • Track record in adopting modern manufacturing technologies and climbing up the value ladder. • Current leadership is strongly committed to pursue reforms aimed at social and gender inclusion. • Progress on the digitalization agenda, including initiatives to catalyse ICT industry development and exports. 	<ul style="list-style-type: none"> • Supporting private sector is a key strength of the EBRD, using direct and indirect financing, risk-sharing, trade finance, business and policy advice. • Use current Bank capacity to continue gender policy mainstreaming for high impact and increase capacity to improve access to finance and business skills by young entrepreneurs • Provide policy advice and financing to accelerate digital transition in the private sector and public utilities/SOEs. 	<p>Develop Private Sector and Foster Employment, Skills, Inclusion and Digital Transition</p>	<ul style="list-style-type: none"> • Increased competition including through enhanced value chains and linkages • Increased access to skills and finance • Improved product and process innovation
<ul style="list-style-type: none"> • Weak rule of law, corruption, and lack of transparency in government and SOE procurement are major concerns. • Inadequate corporate governance distorts business environment. • Continued high levels of concentration and state ownership in critical industries and the financial sector. • Lack of a proper PPP framework limits private sector participation in infrastructure development. • Major infrastructure and administrative bottlenecks in transport connectivity 	<ul style="list-style-type: none"> • Steady, albeit gradual improvements in regulatory quality, enforcement of contracts, government effectiveness and e-governance services. • Preparation for privatisation transactions is advancing, supported by structural reforms. Share of private banks is expected to increase to about 60% by 2025. • Ambitious infrastructure investment plans and willingness to use PPP structures. 	<ul style="list-style-type: none"> • EBRD has capacity to advise on good governance in the public sector, including through the use of digital technology and improved procurement practices. • The Bank is able to step up support for SOE/SOB transformation and Public Private Partnerships at policy, institutional and transaction levels. • The Bank has already prepared a list of priority investments and soft measures for transport connectivity – ready to support implementation. 	<p>Promote Economic Governance and Business Climate Improvements and Enhance Infrastructure Connectivity</p>	<ul style="list-style-type: none"> • Improved governance practices and increased private sector participation • Improved quality of institutions and strengthened rule of law • Enhanced regional and global connectivity

5. Activities and Results Framework (1/3)



Priority 1: Support Decarbonisation, Green Cities, Water Efficiency, and Cleaner Energy

Key Objectives	Activities	Tracking Indicators (Outcomes)
<p>Progress with decarbonisation of key economic sectors / Increased share of renewable energy in power generation</p>	<ul style="list-style-type: none"> Development and implementation of low carbon pathways, and supporting clients to adopt corporate climate governance in line with good international practices . Policy advice on further commercialisation for energy companies as well as companies in energy and emissions intensive sectors, financing and implementation support, energy systems modernisation. Support Methane Pledge implementation. Support cleaner and more efficient energy generation, expansion of renewable power generation (wind, solar) with financing and also with advice for tenders and policy advice on further regulatory and legal reforms in the energy sector. Provide financing and policy advice, including for tariff reform, to enable modernisation of energy distribution and transmission networks and expansion of energy storage solutions. Promote regional cooperation on energy through advocacy, policy advice and financing for energy networks. 	<ul style="list-style-type: none"> CO2e emissions reduced (Ktonnes/year) Renewable Energy capacity installed (GW)
<p>Reduced vulnerability to climate change and improved municipal infrastructure</p>	<ul style="list-style-type: none"> Financing, policy advice, and reform implementation support for municipal infrastructure, including through Green Cities programme, commercialisation of municipal utilities, support for e-mobility, and public transport reform (e.g., green buses, charging infrastructure). Strengthen support for water and wastewater investments through policy advice, financing and assistance with investment preparation and implementation Support commercialisation and modernisation of other public utilities, including solid waste management and district networks (heating and cooling) Financing and advice to modernisation the irrigation systems (separation of regulation and operational responsibilities; commercialisation of irrigation companies; tariff reform; water metering, new, climate-smart technologies). Support the implementation of eligible uranium remediation projects under the EBRD Environmental Remediation Account (ERA) for Central Asia. 	<ul style="list-style-type: none"> Water saved (m3/y) Electricity saved (kWh/year) Number of beneficiaries with improved access to municipal services
<p>Improved resource and energy efficiency</p>	<ul style="list-style-type: none"> Scale up the Green Economy Financing Facilities, alongside advice, for MSMEs. Support greening of the financial sector (e.g. assistance to PFIs with Paris Agreement alignment). Policy advice on natural resources and related legal and regulatory frameworks, including implementation and ESG. Support commercialisation of mining companies, attracting new entrants and expanding private sector participation. Focus on Green Governance, including ESG standards, better wastewater treatment in the private sector, energy efficiency in buildings, and sustainability along the value chain. 	<ul style="list-style-type: none"> Primary energy saved (GJ/year)

5. Activities and Results Framework (2/3)



Priority 2: Develop Private Sector and Foster Employment, Skills, Inclusion and Digital Transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
<p>Increased competition including through enhanced value chains and linkages</p>	<ul style="list-style-type: none"> Expand financing for the private sector, including direct loans, SME credit lines, risk sharing facilities, trade finance, local currency lending and equity investments, both direct and through equity funds. Foster foreign direct investment across sectors and regions. Continue Advice for Small Business, strengthening links between advisory and financing and widening the outreach. Support the role and expansion of aggregators, including stronger linkages to smaller local enterprises, utilising financial instruments, business advisory, and policy advice. Support expansion of inclusive local supply chains (such as the introduction and operationalisation of the new factoring law, working with PFIs). Support expansion and deepening of regional and global value chains (e.g., financing for logistics facilities). 	<ul style="list-style-type: none"> Volume / number of corporate and RSF transactions Volume / number of MSME credit lines sub-loans disbursed Number of ASB clients reporting increased productivity / increased turnover Volume / number of TFP transactions supported by the Bank
<p>Increased access to skills and finance</p>	<ul style="list-style-type: none"> Support transition towards an inclusive and gender responsive financial system through provision of finance and advisory services to enhance access to finance and address skills gaps (e.g., Women in Business, Skills Councils), and launch Youth in Business programme. Help create opportunities for investments in care economy (e.g., hospital PPPs). Look for ways to address regional disparities, including expansion of financing and advisory services in underserved regions. Continue expansion of Star Venture programme, supporting local accelerators and incubators. 	<ul style="list-style-type: none"> Volume / number of Women in Business / Youth in Business sub-loans disbursed Volume / number of MSMEs sub-loans outside the capital
<p>Improved product and process innovation</p>	<ul style="list-style-type: none"> Finance and advice for digitalisation in the private sector, including IT skills upgrades, support for early stage technology ecosystem, including through recently launched Star Venture programme, and financial sector digitalisation. Policy advice to the authorities and business advice for corporate and financial sector clients to enhance cybersecurity, Promote expansion of e-commerce (e.g., e-payment platforms and electronic marketplaces). Strengthen the foundations for capital market financing by developing money markets, the legal and regulatory framework and the capital market infrastructure, exploring support for corporate bond issuances and IPOs. 	<ul style="list-style-type: none"> Number of corporate and ASB clients implementing digitalisation projects Capital markets reforms implemented (qualitative)



5. Activities and Results Framework (3/3)



Priority 3: Promote Economic Governance and Business Climate Improvements and Enhance Infrastructure Connectivity

Key Objectives	Activities	Tracking Indicators (Outcomes)
<p>Improved governance practices and increased private sector participation</p>	<ul style="list-style-type: none"> • Continue supporting the transformation of SOEs and SOBs, including policy advice on state asset management and related SOE/SOB governance reform. Enhance investment clients' corporate governance and management of climate risks, asset management, commercialisation. Support corporate governance improvements of private sector clients. • Support privatisation, including through pre-privatisation engagements, participation in key transactions, and post-privatisation restructuring and corporate governance changes. • Promote PPPs through stepping up advisory engagements and financing key transactions. • Continue working with the government on the SME Strategy for adoption in 2024 and assist with implementation. 	<ul style="list-style-type: none"> • Number of clients improving corporate governance and/or standards (incl. SOEs) • SOEs legal and regulatory reforms implemented (qualitative)
<p>Improved quality of institutions and strengthened rule of law</p>	<ul style="list-style-type: none"> • Policy advice on digitalisation in the government sector, including digital solutions for the private sector, e-procurement, digital solutions for business inspections. • Support strengthening of accounting standards and improvements in the business registry. • Support developing an effective public-private sector dialogue through the Foreign Investors Council and the implementation of its recommendations. • Advise on public procurement reforms, including legal and regulatory policy advice and related training and skills improvements including for e-procurement. • Improve insolvency frameworks and assist with the implementation of new insolvency laws for businesses and individuals to help improve access to finance and restructuring solutions. 	<ul style="list-style-type: none"> • Regulatory reform measures implemented (qualitative)
<p>Enhance regional and global connectivity</p>	<ul style="list-style-type: none"> • Pursue opportunities for financing and policy advice to progress with transport and energy infrastructure network investments for improved domestic and regional / global connectivity (e.g. transmission lines, logistics, transport links – including the Transcaspian International Transport Route), based on targeted and evidence-based analytical work, and contribute to relevant sector reform in areas of EBRD expertise . • Provide policy advice to lower trade barriers, focusing on non-tariff trade barriers. 	<ul style="list-style-type: none"> • Improved quality of infrastructure (qualitative) • Expanded access of infrastructure within/ across regions'

6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD Business Areas

Indicative annual average investments/grants (€m, 2018-2022)		Sectors								Cross-cutting Themes					
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		FI		Strategic Initiatives				
		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank Fis	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business	
ADB*	692	€				€P	€	€P			€				
WB	487	€			€P	€	€								
IFC	129	€P						€P							
AFD	118					€P				€					
EIB	65					€	€							€	
EU	27	€P					€					€P			
EBRD	557	€	€			€	€	€		€	€			€P	

€ Area of significant investments

● Focus mostly on private sector

P Area of significant policy advice

○ Focus mostly on public sector

Note: MDB/AfD/EU activity mapping based on publicly available information. Significant investment defined as projects exceeding 5% of total investments signed between 2018-2022

*ADB investments include only sovereign projects up to May 2022 due to data availability

Potential Areas of Cooperation



Green

- Continue cooperation with MDBs and establish cooperation with the EU on financing energy efficiency improvements, supporting decarbonisation and renewable energy reform and development



Competitive

- Continue cooperation with IFC on banking sector reform, increasing PFI financing and supporting SOBs' capacity building towards privatisation
- Align with partner MDBs to enhance the PPP framework and improve overall business climate.
- Cooperate with EU on financial inclusion and digitalisation.



Integrated

- Seek co-investment opportunities to finance improvements in transport infrastructure and improve international logistics
- Cooperate with the EU and with MDBs on the implementation of soft measures required for regional transport integration



7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
<ul style="list-style-type: none"> • Risk of reduced local support for further deep structural reforms, especially vis-à-vis private sector participation in the economy and privatisation of state-owned assets. 	●	●	<ul style="list-style-type: none"> • Strategic Environmental and Social Assessment: Ensure key sectors have SESA developed with support from governmental stakeholders to ensure allocation of project sites based on E&S risk.
<ul style="list-style-type: none"> • Weak administrative capacity and frequent changes of government could affect pace of reforms and delay project preparation and implementation. 	●	●	<ul style="list-style-type: none"> • Assessment and Management of Environmental & Social Impacts, Stakeholder Engagement: Ensure that direct, indirect and cumulative impacts of projects are assessed and mitigated through adequate E&S implementation capacity.
<ul style="list-style-type: none"> • Limited availability of local currency finance constrains EBRD lending to corporates and SMEs. 	●	●	<ul style="list-style-type: none"> • Labour and Working Conditions: Ensure clients' HR policies and labour practices comply with EBRD requirements, focusing on workers organizations, child and forced labour, working time and wage standards, eradicating discrimination towards minority groups, women, and migrant workers. Large scale retrenchment may be associated with privatisation. Clients' capacity to manage supply chain risks in agricultural, textile, renewable energy sectors may require attention.
<ul style="list-style-type: none"> • Despite government ambitions to pursue privatisations and structural reforms in the banking sector, continuous SOB dominance in the financial markets and existing favourable direct lending to SMEs may make EBRD finance unattractive. 	●	●	<ul style="list-style-type: none"> • Decarbonisation, Resource Efficiency and Pollution Prevention and Control: Support implementation of the Low-Carbon Pathway (LCP) for the energy sector and LCP development for other energy-intense sectors to reduce GHG emissions, natural resources consumption, pollution.
			<ul style="list-style-type: none"> • Resilience to Climate Change: Assess climate risks and incorporate climate risk management and resilience measures into project design. • Environmental, Social and Governance (ESG): Promote implementation of ESG standards. • Health and Safety: Occupational and community health and safety culture and practice, including access to clean drinking water and food safety. Road safety and client fleet management are priority issues for transport projects and may require TC funds. • Land Acquisition, Involuntary Resettlement and Economic Displacement: Strengthen clients' capacity to manage land acquisition and resettlement impacts as per EBRD's requirements under ESP 2019. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with national norms and the Bank's policy requirements. Support clients to ensure that economically and/or physically displaced people are meaningfully consulted throughout the resettlement process and accessible grievance mechanisms are provided to them for raising their concerns and suggestions. • Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy and infrastructure projects may encroach or fragment sensitive habitats, protected areas or proposed or existing Natura 2000 sites. Ensure biodiversity impact assessments are carried out and provide TC support where needed to avoid or minimise these impacts. Preliminary project E&S screening is required by GoU before allocating projects lands to avoid sensitive locations. Following the pilot Natural Capital Evaluation (NCV) assessment for the segments of the Aral Sea basin within Uzbekistan, the EBRD will consider implementing enhanced nature-related risk management practices and investment opportunities identified by the assessment in this region. • Cultural Heritage: Identify and consult key stakeholders to preserve sensitive cultural heritage, promoting good international practices for preserving heritage sites associated with the projects. • Monitoring and supervision: Monitor E&S performance and address legacy issues associated with the Bank's portfolio.

● High ● Medium ● Low



8. Donor Partnerships Assessment

Needs Assessment for the New Country Strategy Period

Following donor funding will be needed to achieve the strategic objectives of the Country Strategy:

- TC grants for further energy sector reforms (including tariffs), transport sector reform (including for investment preparation and measures to be implemented for regional transport connectivity), governance improvement – SOE transformation, improved procurement and digitalisation of private sector services in government institutions, insolvency law implementation.
- Concessional loans, risk sharing instruments and TC grants for supply chain enhancement, increasing accessibility to skills and finance and improving product and process innovation for local companies
- Incentive grants and concessional loans to help improve resource and energy efficiency at private companies
- Concessional financing to increase water efficiency and greening municipal infrastructure
- Concessional loans and guarantees to deploy new technologies in the energy sector and to accelerate investments in regional logistics and transport infrastructure.

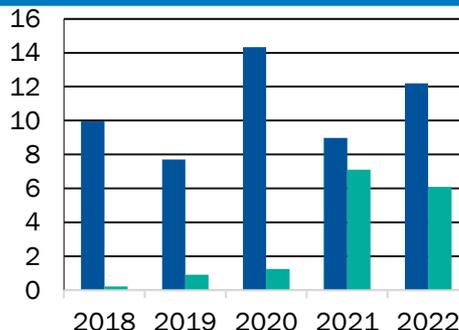
Potential Sources of Donor Funds

- The EU Asia Pacific Infrastructure Facility (APIF) and the EU Multi-annual Indicative Programme (MIP) for Uzbekistan may be a source for capex and TC grants in the infrastructure, digital, SME and agribusiness sectors. Unfunded guarantees covering energy transition, financial inclusion, digital connectivity and ESG risk-sharing as well as for transport connectivity may be available under the EU EFSD+.
- The largest bilateral donor, Japan, may continue to fund TC projects covering a broad range of themes. These include supporting quality infrastructure, energy and environmental innovation, capital market development, and promoting diversity in human resources. The second-largest donor, Korea, is ready to finance TC aimed at promoting green transition and the expansion of the local private sector.
- Uzbekistan is currently eligible for up to €12 million from the Sustainable Infrastructure Fund for projects supporting institutional and capacity building, economic and legal reforms, or investment grants co-financing the Bank’s investment operations.
- Support is also available from multilateral funds under several ongoing programs, including the Pilot Program for Climate Resilience of CIF, the Finance and Technology Transfer Center for Climate Change (FINTECC) of GEF, and the High Impact Programme for the Corporate Sector of GCF, among others.

Selected Affordability Indicators

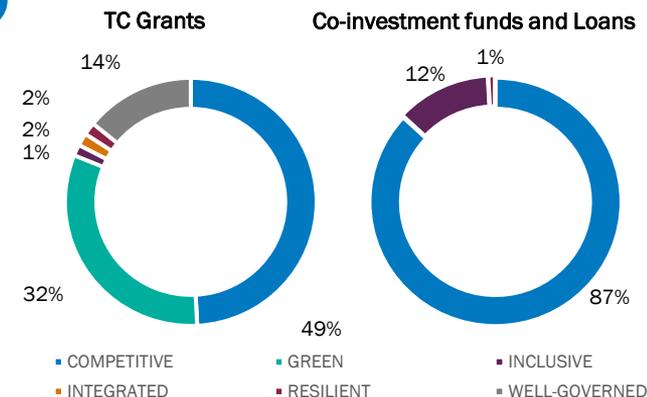
		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	8,497	11 th
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) ³	1.67	38 th
ODA per capita (\$ - current prices) ³	34.09	25 th

Donor finance during 2018-2022 (€m)⁴



■ TC ■ Co-Investment Grants and Loans

Use of grants in 2022⁵



1. Simple percentile rank reported as the share of EBRD economies represented below Uzbekistan. 2. WDI (2021) 3. OECD (2021) 4. Methodology for reporting co-investment amounts has changed from being based on client signings to being based on earmarks at commitment level in 2022. 2018-2022 TC data and Co-investment 2022 amount are based on earmarks at commitment level, and co-investment grant amounts 2018-2021 are based on client signings. 5. Based on the primary Transition Quality of earmarked donor funds.

Annex

PUBLIC



European Bank
for Reconstruction and Development



Annex 1 – Political Assessment in the Context of Article 1 (1/8)

Although Uzbekistan remains committed to the political principles of the Article and their application as set out in the Articles Establishing the Bank, progress since the previous Country Strategy for Uzbekistan was approved in September 2018 has been uneven. Progress was more consistent in the first part of the previous Country Strategy period, but slower and patchier in the second. Before the Bank re-engaged in 2017, Uzbekistan's commitment to and application of Article 1 principles had been minimal. There has been significant progress since then, but major concerns remain.

International bodies which monitor democratic and human rights standards continue to assess positively the progress made in Uzbekistan since President Mirziyoyev took office at the end of 2016. In the period covered by the previous Country Strategy, Uzbekistan has significantly stepped up its engagement with relevant international bodies. In October 2020, it was elected to the membership of the UN Human Rights Council for the 2021-23 period. The removal of the Cotton Campaign boycott of Uzbek cotton in March 2022, after a report by the Uzbek Forum for Human Rights concluded that "state-imposed forced labour" was no longer used in the cotton harvest, was a landmark in Uzbekistan's progress in recent years. In another important step, in April 2023, the Uzbek Parliament approved a bill specifically criminalising domestic violence.²

The new Uzbek Constitution adopted after a national referendum in April 2023 contains a higher level of commitment to Article 1 principles than its predecessor.³ It establishes the principle of the Constitution's direct legal application and the supremacy of the country's commitments set out in international treaties over domestic legislation, which could facilitate the application of democratic and human rights standards in practice. More specifically, the new Constitution provides a range of protections for the independence of the judiciary. It broadly repeats the previous protections for civil society and media freedom, which tend to be prescriptive rather than permissive. Among the key new human rights, it explicitly prohibits the death penalty. It also enshrines a much wider range of social, cultural, environmental and economic rights.

However, the extension of the presidential term from five to seven years in the new Constitution and the judgment of the Constitutional Court that the parliamentary resolution which, inter alia, annulled President Mirziyoyev's terms in office under the previous Constitution was constitutionally valid, therefore allowing him to stand for two more terms in office, represented a disproportionate strengthening of the presidency. International bodies which monitor democratic and human rights standards continue to raise a series of concerns in Uzbekistan. These include: the lack of space for a genuinely independent political opposition; the criminalisation of same-sex relations between males; the prosecution of independent journalists and bloggers; and the restrictive legal framework for the registration and activity of civil society organisations.

FREE ELECTIONS AND REPRESENTATIVE GOVERNMENT

Free, fair and competitive elections

The Uzbek Constitution, adopted in April 2023, sets out the legal basis for holding free, fair and competitive elections. Article 36 states that, "Citizens of the Republic of Uzbekistan have the right to participate in the management of society and state affairs directly and through their representatives." Article 129 establishes a standing Central Electoral Commission based on the principles of "independence, the rule of law, collegiality, transparency and justice" to administer elections for the presidency, legislature, regional and local assemblies and referendums.

Application of the principles relating to free elections and representative government in Uzbekistan after independence has been weak. Under first President Karimov the OSCE Office for Democratic Institutions and Human Rights (ODIHR) only deployed limited election monitoring missions and their recommendations, for the most part, were not implemented.

1. "A lot has been done on Uzbekistan's transformation over the past six years and I deeply appreciate the President's commitment to the centrality of human rights for the way forward. We should not forget that when we talk about human rights, it is a never-ending story." Statement of UNHCHR in Tashkent, 15.03.2023. 2 International civil society organisations welcomed this measure. See, for example, Uzbekistan: Parliament passes long-overdue legislation criminalizing domestic violence. Amnesty International, 06.04.2023. 3. The Uzbek authorities reported that over 200,000 proposals were submitted during the public consultations on the new Constitution. Over 90% of voters voted to adopt the new Constitution on a 85% turn-out



Annex 1 – Political Assessment in the Context of Article 1 (2/8)

Under the leadership of President Mirziyoyev, there has been an increased level of cooperation between the Uzbek authorities and ODIHR and ODIHR has deployed comprehensive election monitoring missions in all subsequent national elections and most of their recommendations have been implemented.⁴ However, progress in ensuring the conduct of free, fair and competitive elections in practice has been limited.⁵

Early presidential elections, which took place on 9 July 2023, showed little evidence of progress towards a poll that was free, fair and competitive. President Mirziyoyev was returned for a seven-year term with over 87% of the vote, which was not surprising since the three other candidates had a low public profile and did not promote distinctive policies. The OSCE/ODIHR Election Observation Mission Preliminary Conclusions set out a series of criticisms of both the political/legal environment in which the election was held and the conduct of the poll on election day. It noted that, “substantial changes are needed to provide a sound legal basis for the conduct of democratic elections... [and] an environment where fundamental freedoms and the right to stand remain restricted.” The Mission noted that, “observers negatively assessed the voting process in a significant number of polling stations, with the administration of the voting process observed as bad or very bad in 13 per cent of observations.”⁶

Separation of powers and effective checks and balances

The Constitution sets out the legal basis for a state based on the separation of powers. Article 11 states that the Uzbek state is “founded on the principles of the division of powers between the legislative, executive and judicial branches”. However, experts have generally concluded that, for most of its history as an independent country, the President of Uzbekistan has enjoyed considerable formal and informal powers to direct and control Government, Parliament and the Judiciary.⁷

There have been a series of measures over the past decade to re-balance powers between the different branches of the state and establish more effective checks. The new Constitution clarifies the separation of powers -

4. ODIHR has sent full monitoring missions to all presidential and parliamentary elections since December 2016. (They sent a Limited Referendum Observation Mission to the 30 April 2023 Constitutional Referendum.) They did not send a single full mission to any election under later President Karimov. 5. International organisations which monitor democratic standards assess some improvement, although from a low base, over the period covered by the previous Country Strategy. World Bank, Worldwide Governance Indicators for Voice and Accountability show an advance from a percentile rank of 2.96 for 2016 to 12.56 for 2021. 6. OSCE/ODIHR Election Observation Mission. Statement of Preliminary Findings and Conclusions, 10.07.2023. 7. For example, the Freedom House states on its Uzbekistan page that, “The legislature and judiciary effectively serve as instruments of the executive branch...”

- between the presidency and parliament (previous amendments in 2011 and 2014 had enhanced the powers of the PM) and enhanced the independence of the judiciary (see below). In some other respects, the powers of the presidency have been enhanced, e.g. to appoint and dismiss hokims (heads of regional and local administration) without (as before) reference to the PM.

However, the extension of the presidential term from five to seven years and the judgment of the Constitutional Court that the parliamentary resolution which, inter alia, annulled President Mirziyoyev’s terms in office under the previous Constitution was constitutionally valid, therefore allowing him to stand for two more terms, have considerably strengthened the formal and informal powers of the presidency. President Mirziyoyev announced the calling of early presidential elections in July 2023. He has justified seeking a further term in office in order to speed up reforms, but this remains to be confirmed in practice.

Effective power to govern of elected officials

The Constitution sets out the legal basis for the country’s elected officials to have effective power to govern. Article 7 states that, “The people are the only source of state power.” Reflecting Uzbekistan’s Soviet legacy in which real power had been wielded by the Communist party and the security services rather than by the institutions and procedures set out in the Constitution, Article 7 specifically excludes the possibility of power being appropriated by non-constitutional power structures. In practice, decision-making in Uzbekistan remains untransparent and the application of due process inconsistent.

In March 2018, President Mirziyoyev abolished the National Security Service (SNB) and reduced the role of its successor, the State Security Service (SSS), in public life, to bring it under political control, to establish the legal basis for its existence, to define its specific areas of responsibility -



Annex 1 – Political Assessment in the Context of Article 1 (3/8)

- and to give Parliament and the General Prosecutor's Office a role in ensuring its accountability. The Constitution (Articles 143-5) also includes provisions to increase accountability and transparency in the work of the General Prosecutor's Office.

The military is under civilian control and does not play a significant role in the country's political decision-making process.

The new Constitution specifically defines Uzbekistan as a secular state. Religious bodies and organisations do not play a significant role in the country's political decision-making process.

CIVIL SOCIETY, MEDIA AND PARTICIPATION

Scale and independence of civil society

The development of civil society in Uzbekistan after independence was limited and, after 2005, almost all independent groups were closed with only a small number of individual activists continuing to work in difficult circumstances. There were various voluntary associations working on less controversial issues, but they pursued objectives which were compatible with official policy and sometimes received grants from state bodies.

After President Mirziyoyev took office at the end of 2016, the situation improved with groups and activists playing, for example, an important role in the efforts to eliminate child and forced labour in the cotton harvest. However, the scope for independent CSOs working on politically sensitive topics, such as human rights, to operate remains limited, with the legislative framework imposing burdensome regulations for their registration and activity.

The Constitution sets out the broad legal framework for civil society. Article 39 states that, "Citizens of the Republic of Uzbekistan shall have the right to form trade unions, political parties and any other public associations, and to participate in mass movements." Article 72 states that, "The state shall safeguard the rights and lawful interests of non-governmental non-profit organizations and provide them with equal legal possibilities for participating in public life."

8. In March 2021, cotton workers at the Indorama joint venture in the Syrdarya region established an independent trade union, but decided to operate under the auspices of the official trade union body in an attempt to pursue their concerns more effectively.

Even so, the constitutional framework for civil society sets out a prescriptive rather than a permissive approach. Article 71 sets out a series of prohibited activities including "encroaching on the health and morality of the people... and political parties based on the national and religious principles".

In March 2021, a presidential decree set out a Concept paper on the Development of Civil Society in 2021-2025, which could provide the basis for the broad development of civil society but, so far, it has not led to the adoption of the necessary legislation. Subsequently, in May 2022, a Cabinet of Ministers Resolution placed new obligations on CSOs in receipt of foreign funding to coordinate their activities with the authorities. In October 2023, the Cabinet of Ministers made changes to the Resolution which could complicate further the receipt of foreign funding by CSOs.

The Constitution sets out the broad legal framework for trade unions to operate (see above). Article 73, in addition, states that, "Trade unions express and protect the social and economic rights and interests of workers. Membership in trade unions is voluntary." In practice, the main bodies representing workers' interests are the former Soviet "official" trade unions which continue to be closely integrated with the state. The law On Trade Unions which came into effect in March 2020 was a step forward for establishing independent trade unions. However, progress since then in establishing new trade unions has been limited⁸.

Independent, pluralistic media that operates without censorship

The Constitution sets out the broad legal framework for free media, but more on a prescriptive than a permissive basis. Article 81 states, "The mass media shall be free and act in accordance with law. The State shall guarantee the freedom of the media to act and to exercise the right to seek, receive, use and disseminate information. The mass media shall be responsible for the reliability of the information they provide." Article 82 explicitly prohibits censorship.



Annex 1 – Political Assessment in the Context of Article 1 (4/8)

Access to online and social media platforms in the last ten years has transformed the media environment (in particular the popularity of “bloggers” reporting on a variety of issues) and relations between the authorities and the public in Uzbekistan. This has greatly increased the amount of information and the range of views accessible to Uzbek citizens. In May 2019, the authorities unblocked access to a range of internet news websites (some of which had been blocked since 2005) to residents of Uzbekistan. At the same time, access was made easier to the websites of a number of international human rights CSOs.⁹

International organisations which monitor media freedom assessed strong progress in the media environment in Uzbekistan between 2019 and 2022 with a small decline in 2023.¹⁰ In February 2023, the UN Working Group on Arbitrary Detention raised concerns about the treatment of a well-known Uzbek blogger.¹¹ In April 2023, the EU expressed concerns about criminal prosecutions targeting independent bloggers and journalists.¹¹ International bodies which monitor application of human rights, including media freedom, have raised growing concerns about the harassment of independent journalists and bloggers in recent years.¹³

Multiple channels of civic and political participation

The Constitutional Commission, which had responsibility for drafting the new Constitution, carried out an extensive public consultation campaign, which elicited a large response from the public.¹⁴

The new Constitution sets out the legal basis for the Uzbek people to participate in the country’s political life. Article 7 states, “The people are the sole source of state power.” Article 36 elaborates this principle, “All citizens of the Republic of Uzbekistan shall have the right to participate in the management and administration of public and state affairs, both directly and through representation. They may exercise this right by way of self-government, referendums and democratic formation of state bodies, as well as public control over activities of state bodies.”

Enhancing the public accountability of regional and local hokims has emerged as an increasing concern in recent years.¹⁵ An apparently minor new constitutional provision (Article 120) which prohibits regional hokims from simultaneously holding the post of Head of the kengash (elected regional or local assembly) could substantially enhance their accountability.¹⁶ The new Constitution also contains provisions to enhance the independence and accountability of kengashes, e.g. prohibiting MPs from also being members of regional or local assemblies. It sets out clearly the responsibilities of kengashes, e.g. to adopt and monitor the implementation of local budgets.

A July 2018 presidential decree established public councils to ensure greater public monitoring of government bodies. Subsequently, public councils have been established in central and local government, but their impact is unclear.

Freedom to form political parties and existence of organised opposition

The Constitution sets out the broad legal framework for political parties and an organised opposition, although more on a prescriptive than a permissive basis. Article 39 stipulates, “the right to form... political parties and any other public associations, and to participate in mass movements... No one may infringe on the rights, freedoms and dignity of the individuals, constituting the minority opposition in political parties, public associations and mass movements, as well as in representative bodies of authority.” Article 74 of the 2023 Constitution stipulates a new responsibility for political parties “to submit public reports on the sources of financing their activity” to Parliament or a body authorised by it.

However, the freedom to form genuinely independent political parties and to organise a political opposition in practice remains severely restricted.

9. Reporters without Borders, 15.05.2019. Some critical websites remain blocked to residents in Uzbekistan, for example, the Uzbek Service of Radio Liberty. 10. Reporters without Borders, Global Press Freedom Index ranked Uzbekistan 160 out of 180 in 2019, 133 in 2022 and 137 in 2023. 11. Opinion of UN HRC WG on Arbitrary Detention, 10.02.2023. 12. Statement of EU-Uzbekistan Cooperation Council, 24.04.2023. 13. Uzbekistan: President’s Broken Promises puts Journalists and Bloggers at Risk, Uzbek Forum for Human Rights, 01.06.2023. 14. Reportedly over 200,000 suggestions were submitted by citizens, trade unions, universities and local government bodies. 15. President Mirziyoyev has, on a number of occasions, most recently in September 2020, suggested that regional hokims should be elected. 16. Another provision (Article 121) limits the term in office of a Hokim to five years limited to two terms in a row.



Annex 1 – Political Assessment in the Context of Article 1 (5/8)

The OSCE/ODIHR Election Observation Mission for the early presidential election on 9 July 2023, noted that attempts by activists to register independent political parties had been frustrated. Its Statement of Preliminary Conclusions stated that, “the burdensome requirements for party registration continue to restrict the pluralistic nature of the political environment.” It said that all of the five registered parties are represented in Parliament but all of them endorse the President’s policies.¹⁷

RULE OF LAW AND ACCESS TO JUSTICE

Supremacy of the law

The Constitution sets out the legal basis for ensuring the supremacy of the law. International organisations which monitor the application of the rule of law assess a steady improvement, although from a low base, during the period covered by the previous Country Strategy.¹⁸ The new Constitution includes provisions which could enhance the rule of law in Uzbekistan and embed both the principles set out in the Constitution and the commitments it has made internationally in the country’s administration and public life.

First, the direct application of the Constitution in the public life of the country. Article 15 states, “The Constitution of the Republic of Uzbekistan shall have the supreme legal force and direct effect and constitute the basis of the single legal space on the entire territory of the country.” Article 16 stipulates explicitly that all laws and legislative acts “shall be adopted on the basis and in fulfilment of the Constitution... No law or other normative legal act may contradict the principles and norms of the Constitution.”

Second, the supremacy of Uzbekistan’s commitments under international treaties over domestic legislation. Article 15 states, “International treaties of the Republic of Uzbekistan, along with the generally recognized principles and norms of international law, shall be an integral part of the legal system of the Republic of Uzbekistan... If an international treaty of the Republic of Uzbekistan establishes other rules than those stipulated by the law of the Republic of Uzbekistan, the rules of the international treaty of the Republic of Uzbekistan shall apply.”

Particularly since the new Constitution enshrines much more explicitly existing civic rights and includes a wide range of new social and economic rights, these could be powerful instruments for ensuring the much wider application of the standards and principles enshrined in the Constitution in the country’s public life.

Independence of the judiciary

The Constitution sets out the legal basis for the independence of the judiciary. Article 130 states, “The judicial authority in the Republic of Uzbekistan shall function independently from the legislative and executive authorities, political parties, and other institutions of civil society.” Article 136 elaborates a series of protections for judges from interference.

The new Constitution enhances a series of protections for the independence of the judiciary. In particular, Article 135 the Supreme Judicial Council, which has responsibility for the selection and administration of judges and courts, has had its independence from the executive further enhanced, with the President losing the power to approve members of the Supreme Judicial Council.

Government and citizens equally subject to the law

The Constitution sets out the basis for Government and citizens to be equally subject to the law. Article 15 states, “The state, its bodies, other organizations, officials, public associations and citizens shall act in accordance with the Constitution and the laws.” Article 20 states, “All contradictions and ambiguities in the legislation, which arise in the relationship between a person and state bodies, shall be interpreted in favour of the person.” In a significant bolstering of access to the law, the new Constitution included the provision (Article 29) that, “Everyone shall be guaranteed the right to receive qualified legal assistance. In cases stipulated by law, legal assistance shall be provided at the expense of the state.”

17. OSCE/ODIHR Election Observation Mission. Statement of Preliminary Findings and Conclusions, 10.07.2023. The Uzbek authorities do not consider the regulations for registering political parties burdensome. They have stated their intention to strengthen political parties to offer voters increased choice in future elections 18. World Bank, Worldwide Governance Indicators for Rule of Law show an advance from a percentile rank of 12.02 in 2016 to 19.71 in 2021.



Annex 1 – Political Assessment in the Context of Article 1 (6/8)

Effective policies and institutions to prevent corruption

Since taking office, President Mirziyoyev has made tackling corruption a priority. Previously, international organisations which monitor efforts to combat corruption and assess levels of corruption had concluded that a high degree of state intervention in the economy, often involving complex bureaucratic procedures, licencing requirements and arbitrary inspections, which different state agencies were empowered to carry out, created a favourable environment for and very high levels of corruption.

The OECD Anti-Corruption Network for Eastern Europe and Central Asia, in its most recent assessment in April 2019, noted that, “Uzbekistan has initiated ambitious anti-corruption reforms to overhaul many areas of public governance backed by political commitment at the highest level. These reform efforts, however, are still at the early stages of implementation and more needs to be done.” In June 2020, a presidential decree, On Additional Measures to Improve the Anti-Corruption System, established a new Anti-Corruption Agency to coordinate anti-corruption efforts across government and give those efforts a new impetus. Parliament was given a key role in monitoring anti-corruption efforts with the establishment of a National Council on Combating Corruption under the Chair of the Senate to which the Anti-Corruption Agency reports.¹⁹ Furthermore, the new Constitution transfers the power to appoint the Head of the Anti-Corruption Agency from the President to the Senate.

In the period covered by the previous Country Strategy, relevant international organisations have reported steady progress in the efforts of the Uzbek authorities to tackle corruption. According to the Transparency International Corruption Perceptions Index, Uzbekistan’s ranking out of 180 countries rose from 158 in 2018 to 126 in 2022. New legislation continues to be adopted. In May 2023, parliament approved a new law to strengthen the enforcement of legislation to prevent senior officials being involved in conflicts of interest. However, civil society groups and activists continue to raise new concerns about the involvement of politically exposed persons in business and the decisions of senior officials involving serious conflicts of interest.²⁰

19. Uzbekistan has stepped up its cooperation with relevant international bodies to enhance its efforts to tackle corruption. In 2020, the EBRD joined with the UN Office on Drugs and Crime to support a project to build the capacity of CSOs and the private sector to work with state bodies in this area. 20. See, for example, Civil Society Report on the Implementation of the Chapter II (Prevention) and Chapter V (Asset Recovery) of the United Nations Convention against Corruption in Uzbekistan, 29.03.2022.

CIVIL AND POLITICAL RIGHTS

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The Constitution sets out the legal basis for Uzbek citizens to enjoy fundamental human rights. Article 19 states, “The Republic of Uzbekistan shall recognize and guarantee human rights and freedoms in accordance with the generally recognized norms of international law and in accordance with this Constitution. Everyone shall enjoy human rights and freedoms from birth...”

The new Constitution contains wider and stronger provisions for the protection of basic human rights and freedoms. Article 20 states, “Ensuring human rights and freedoms is the highest goal of the State. The State shall ensure the human and citizen's rights and freedoms enshrined in the Constitution and the laws.” Human rights and freedoms shall be directly applicable. The human rights and freedoms shall determine the essence and content of laws, the activities of state and self-government bodies and their officials.” Article 54 states, “The rights to speech, information, religion, conscience, movement, association, assembly and private property are set out and elaborated in a series of new provisions.

Since President Mirziyoyev took office, relevant international bodies assess that Uzbekistan’s overall commitment to and application of a range of civic rights has greatly improved. Large numbers of prisoners held for politically or religiously motivated reasons have been released. In August 2019, the Jasylyk Prison in which many political and religious prisoners were held in very poor conditions was closed. Over recent years, a series of formal regulations and ad hoc arrangements which used to restrict freedom of movement and place of residence domestically and travel outside the country have been removed. Freedom of religious practice and belief has improved significantly.

Annex 1 – Political Assessment in the Context of Article 1 (7/8)



European Bank
for Reconstruction and Development

Political inclusiveness for women, ethnic and other minorities

The Constitution sets out the legal basis for the political inclusiveness for women, ethnic and other minorities. Article 19 states, “All citizens of the Republic of Uzbekistan shall have equal rights and freedoms, and shall be equal before the law, without discrimination by sex, race, nationality, language, religion, social origin, convictions and social status.” Article 58 states, “Women and men shall have equal rights. The State shall ensure equal rights and opportunities for women and men in the administration of public and state affairs and in other spheres of public and state life.”

In the period covered by the previous Country Strategy, the legislative framework for ensuring equal rights for women and men has been strengthened, including the adoption of a Strategy for Achieving Gender Equality, 2020-2030.²¹ In March 2020, the Concluding observations of the UN Committee on the Elimination of Discrimination against Women (CEDAW) set out a series of recommendations to take forward this work. In March 2023, the Uzbek Parliament adopted a Law specifically criminalising domestic violence, which had been a CEDAW recommendation, after a campaign in which civil society activists played a key role.²²

Reforms aimed at increasing women’s participation in public and political life have been underway since 2016 and the number of women in the parliament has increased, they hold 48 out of 150 seats in the current parliament.²³ The Chairperson of the Senate and the Deputy Speaker of the lower chamber of the parliament are women. However, gender stereotypes persist, and women are generally underrepresented in political life. Only 2 out of 27 ministers in the government and 2 out of 12 members of the Supreme Judicial Council are women and all regional hokims are men.

Relevant international bodies have welcomed Uzbekistan’s ratification in June 2021 of the UN Convention on the Rights of Persons with Disabilities.

International bodies with responsibility for monitoring human rights standards have expressed concern about the decision to retain the criminalisation of same-sex relations between males in the revised Criminal Code, adopted in March 2021.²⁴ These concerns have been echoed by international civil society organisations.²⁵ Uzbekistan is the only state in the post-Soviet space, apart from Turkmenistan, to retain this provision in its criminal law.

The new Constitution and relevant legislation set out the basis for the inclusion of different ethnic groups in Uzbekistan’s public life. President Mirziyoyev’s policy of developing cooperation with neighbouring countries has made it much easier for Uzbek citizens of Uzbek or Kazakh, Kyrgyz, Tajik or Turkmen ethnicity to maintain contacts with family members and friends in neighbouring countries. However, in July 2022, Uzbekistan suffered its most serious outbreak of national conflict when security forces confronted protestors opposed to a proposed constitutional amendment which would have removed the right of the Autonomous Republic of Karakalpakstan in the western part of Uzbekistan to secede from the country.²⁶

Freedom from harassment, intimidation and torture

The Constitution sets out the legal basis to ensure freedom from harassment, intimidation and torture. Article 25 states, “The right to life is an inalienable right of every human being and shall be protected by law. Infringement against human life shall be regarded as the gravest crime.” Article 26 states, “No one shall be subjected to torture, violence or other cruel, inhuman or degrading treatment or punishment.”

21. UN CEDAW Concluding Observations, 01.03.2022; 22. International civil society organisations welcomed this measure. See, for example, Uzbekistan: Parliament passes long-overdue legislation criminalizing domestic violence. Amnesty International, 06.04.2023. 23. The Electoral Code revised in 2019 established a 30% quota for the number of female candidates nominated by parties for parliamentary elections. 24. See, for example, the Statement of UNHCHR in Tashkent, 15.03.2023.; 25. See, for example, Uzbekistan: Gay Men Face Abuse, Prison, HRW, 23.03.2021; 26. According to official figures, the violence left 21 people dead and 243 injured. In the immediate aftermath of the protests, President Mirziyoyev ordered the withdrawal of the proposed constitutional amendment.



Annex 1 – Political Assessment in the Context of Article 1 (8/8)

Overall, the 2023 Constitution contains much greater protections against harassment, intimidation and torture. Article 25 establishes an important new right by explicitly stipulating the prohibition of the death penalty. Article 27 contains expanded and clarified language on the protections against arbitrary arrest. The Parliamentary Ombudsman for Human Rights has been active in tackling abuse in detention, including carrying out monitoring visits and organising the training of officials. Uzbekistan is reportedly still working on ratification of the Optional Protocol to the Convention against Torture.

International bodies which monitor human rights standards have continued to raise concerns about the record of the Uzbek authorities in holding officials to account for human rights abuses, including the right to life and freedom from arbitrary or abusive treatment. The Criminal Code retains forced labour as a punishment for the expression of political or ideological views or participation in strikes which goes against Uzbekistan's ILO commitments.

International bodies which monitor human rights standards have also called for an independent and transparent investigation in the protests in Karakalpakstan.²⁷ The call for an independent and transparent investigation has been supported by the EU and other international partners of Uzbekistan.²⁸ The report of the official Investigative Commission has still not been published.

26. See, for example, the Statement of UNHCHR in Tashkent, 15.03.2023; 27. See, for example, the Statement at the end of the EU-Uzbekistan Cooperation Council, Luxembourg, 24.04.2023. Criticism of the actions of the Uzbek authorities relating to the July 2022 protests in Karakalpakstan have been made by international civil society organisations. See, for example, Uzbekistan's Prosecution of Karakalpakstan Protestors Raises Many Questions, HRW, 01.12.2022.