

Uzbekistan Country Strategy

2018-2023

As approved by the Board of Directors on 19 September 2018



European Bank
for Reconstruction and Development

PUBLIC

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Glossary of Key Terms

ABI	Annual Business Investment	ICT	Information and Communications Technology
BEEPS	Business Environment and Enterprise Performance Survey	IFI	International Financial Institution
CA	Central Asia	ILO	International Labour Organisation
CL	Credit Line	INDC	Intended Nationally Determined Contribution
CoOs	Countries of Operation	IPO	Initial Public Offering
CSOs	Civil Society Organisations	LCY	Local Currency
COP21	2015 United Nations Climate Change Conference	MEI	Municipal and Environmental Infrastructure
CPI	Consumer Price Index	MSME	Micro, Small and Medium Enterprise
CSR	Corporate Social Responsibility	MW	Megawatt
E&S	Environmental and Social	NPL	Non Performing Loan
EBRD	European Bank for Reconstruction and Development	ODA	Official Development Assistance
EIB	European Investment Bank	PPP	Private-Public Partnership
ERA	Environmental Remediation Account	PTI	Portfolio Transition Impact
ETC	Early Transition Country	R&D	Research and Development
ETI	Expected Transition Impact	SDGs	Sustainable Development Goals
ETS	Emissions Trading Scheme	SEFF	Sustainable Energy Finance Facility
EC	European Commission	SME	Small and Medium Enterprise
EU	European Union	SOE	State Owned Enterprise
FDI	Foreign Direct Investment	TC	Technical Cooperation
FI	Financial Institution	TFP	Trade Facilitation Programme
GDP	Gross Domestic Product	TPES	Total Primary Energy Supply
GEFF	Green Economy Financing Facility	WiB	Women in Business Programme
GET	Green Economy Transition		
GHG	Greenhouse Gas		

Uzbekistan is committed to and applying, albeit unevenly, the principles set out in Article 1 of the Agreement Establishing the Bank. Serious concern was expressed in the past about Uzbekistan's compliance with Article 1, but those concerns have been allayed in view of recent developments, particularly since the launching of comprehensive reforms at the end of 2016. In February 2017, the Government published a Strategy of Actions in Five Priority Areas for the Development of Uzbekistan, 2017-2021 (the 'Development Strategy'), which set out a comprehensive programme of reform, including political, administrative and judicial aspects. Much now will depend on implementation. The reform process has begun from a low base but progress has been significant. Change has been particularly marked in areas such as the rule of law and judicial independence. There has also been considerable progress in making the government administration more transparent and accountable. While the Uzbek authorities have demonstrated a strong commitment to reform, further steps in strengthening democratic institutions, in expanding the space in which civil society can operate, in allowing greater media freedom and in promoting women's participation are anticipated.

The Government has also initiated a number of significant reforms to reduce the state's presence in the economy and strengthen the business environment. Driven by this ambitious and fast-moving reform programme, Uzbekistan is moving from an inward-oriented economic model towards a more open, integrated and export driven economy. Major steps have been taken to liberalise the foreign exchange regime. The sum has been allowed to float freely since September 2017 with only marginal interventions to smoothen volatility, and currency controls have been loosened. GDP growth is projected to marginally exceed 5 per cent in 2018, on the back of continued robust domestic and foreign investment, and continued implementation of economic reforms.

Notwithstanding these positive developments, Uzbekistan still faces substantial structural challenges in its transition to a sustainable market economy. These include gaps in **competitiveness** (where a significant state presence and shallow financial sector have inhibited development of the private sector), **green economy** (where Uzbekistan's energy and carbon intensity are among the highest in the region) and **integration** (where transport and energy networks remain underdeveloped, and export and trade channels untapped). The Bank can draw upon a variety of policy and financial instruments, including those proven effective in neighbouring countries, to help mobilise investment and support reform efforts. In doing so, it will also remain alert to bankable opportunities to strengthen governance and promote gender inclusive growth across regions at a project level. It will also prioritise capacity building measures across sectors, in close coordination with IFI partners to jointly identify reform priorities and related technical assistance needs.

With that in mind, the Bank is set to pursue the following strategic priorities in Uzbekistan in 2018-2023:

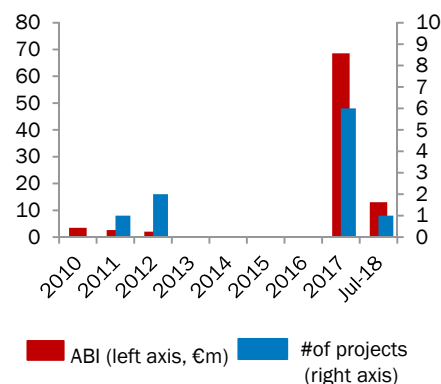
- Enhancing competitiveness by strengthening the private sector's role in the economy;
- Promoting green energy and resource solutions across sectors; and
- Supporting increased regional and international co-operation and integration.

Uzbekistan – EBRD Snapshot

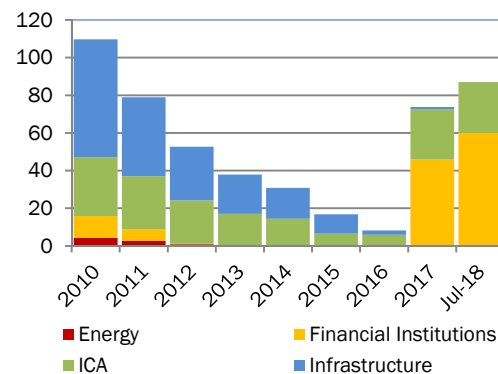
EBRD Investment Activities in Uzbekistan¹

Portfolio	€88m	# of active projects	11
Equity share	1%	Operating assets	€61m
Private share ²	100%	Net cum. investment	€906m

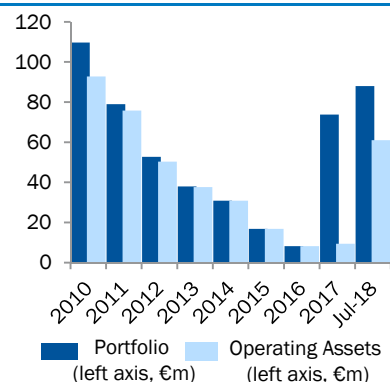
ABI and Operations



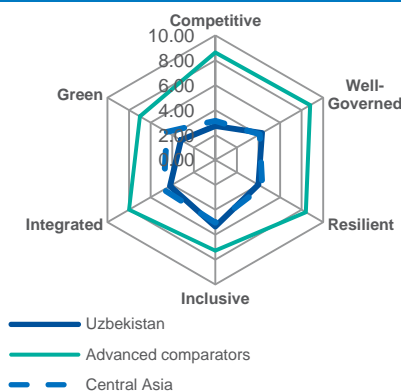
Portfolio Composition (€m)



Portfolio Dynamics



Transition Gaps²



Uzbekistan Context Figures

Population (million) ³	32.1	2017
GDP per capita (USD) ³	1,491	2017
Global Competitiveness Index (WEF)	-	-
Unemployment (% ILO est.) ⁴	7.2%	2017
Youth unemployment (% ILO est.) ⁴	17.5%	2017
Female labour force participation (% ILO est.) ⁴	41.6%	2017
Energy intensity (TPES/GDP) ⁵	0.73	2015
Emission intensity/GDP (kgCO2/2010 US\$) ⁵	1.64	2015

¹ As of July 2018. Cumulative Bank Investment: 5 year rolling basis on portfolio.

² For methodological details refer to EBRD Transition Report. 2017-2018. ³ IMF. ⁴ International Labour Organisation. ⁵ IEA's Energy Atlas.

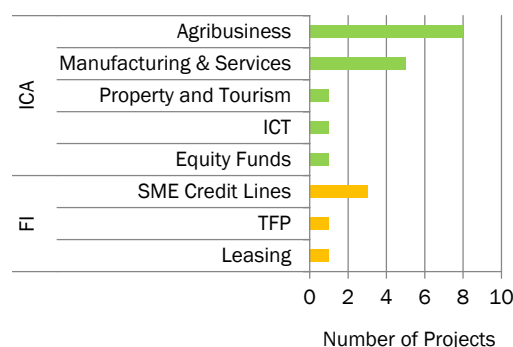
1. Implementation of Previous Strategy

1.1. Key Transition Results Achieved during Previous Strategy Period

Under its last strategy, approved in 2005, the EBRD concentrated on developing the private sector and supporting entrepreneurship, with a special focus on SMEs and promoting foreign investment. From 2005 to 2010, the Bank invested in excess of €80 million across more than 20 projects in the country. Although activities were greatly curtailed starting in 2010, a new Memorandum of Understanding was concluded in March 2017 that set out a further series of short-term priorities, laying the groundwork for a more in-depth engagement in the country.

Priority 1: Supporting Private Sector Development

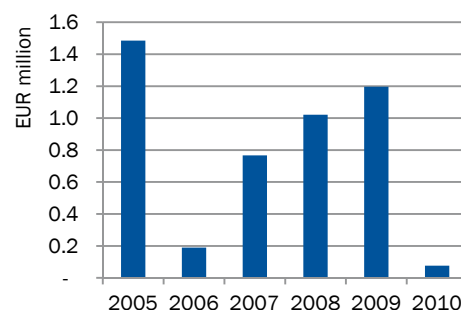
Portfolio 2005-2010



- Successful promotion of SMEs through tailored Credit Lines and Direct Financing Frameworks:** Historically, almost 50 per cent of EBRD finance (€443 million) has been provided to SMEs via the local banking sector, including state-owned banks. During 2005-2010, the EBRD committed €9.5 million of SME credit lines to Uzbekistan's banking sector. As part of the Japan-Uzbekistan Small Business Programme, the EBRD, together with Hamkor Bank, extended more than 27,815 loans (worth US\$15.6m), 54% of which were to new clients, many from rural areas and often with no or limited access to finance. The Bank also directly financed 6 SMEs under its ETC Initiative,² targeting smaller local clients demonstrating a high level of resilience in a difficult businesses environment.
- Production capacity of larger, private firms was also strengthened.** During 2005-2010, the Bank carried out 8 investment operations with Uzbek companies in the agribusiness, manufacturing and services sector, although some clients struggled to expand in a heavily regulated business environment.
- Marginal progress in efforts to develop the financial sector:** the Bank worked with private sector companies to introduce new product lines, such as TFP, leasing and Express Loans. While Express Loans were highly successful, uptake on TFP lines and leasing was more limited due to tight state controls and limited access to foreign currency.

Priority 2: Policy Engagement

TC Commitments 2005-2010



- Training of more than 600 SMEs through business advisory services:** The EBRD was able to establish a large network of local and international consultants to help SMEs develop business plans, restructure production capacities, and implement more sophisticated quality management.
- Successful support of public utility reform:** As part of the Tashkent Water Supply Project, the Bank helped improve collection rates, reform tariffs – now indexed to electricity prices – and eliminate cross-subsidies between industrial and domestic users.
- EBRD advisory services enhanced lending capacity and credit assessment:** leveraging considerable funds for technical cooperation, the EBRD helped partner banks train loan officers and expand credit evaluation capacities. Progress on improving corporate governance was limited, however, owing in part to gaps in the legal and regulatory framework.

² ETC Initiative uses a streamlined approach to financing smaller projects, mobilising more investment, and encouraging ongoing economic reform in countries that face the most significant transition challenges.

1. Implementation of Previous Strategy

1.2. Interim Results, Key Challenges and Way Forward

Context for implementation: Over the last decade Uzbekistan's economy has been negatively affected by a lack of integration with the region and increased pressures on macroeconomic sustainability. However since December 2016 there has been new momentum for structural reforms and improved international cooperation. Under President Mirziyoyev the Government has initiated dialogue with the people and a number of significant political and economic reforms – most importantly, currency liberalisation – to reduce the state's presence in the economy, improve public administration and strengthen the business environment. Uzbekistan has also moved to improve relations with its neighbours and engage more fully with international organisations, including the EBRD. These positive developments have provided a basis for the Bank to support ongoing reform efforts. Substantial progress on the priorities outlined in the March 2017 MoU has already been made.

Interim Results under the March 2017 MoU

- **Introduction of SME-tailored financial products**, including credit lines and TFP limits with: (i) the National Bank of Uzbekistan, (ii) Ipoteka Bank, and (iii) Hamkor Bank.
- **Direct financing of competitive private companies**, comprising loans to Agromir (a juice producer), Jurabek (pharmaceuticals) and Imkon (an ice cream manufacturer).
- **Re-launch of small business advisory services** via an MOU with Uzbekistan's Chamber of Commerce, with a number of projects already up and running.
- **Financing and preparation of select 'green' projects**, including 5 mandate letters signed for water and district heating projects in Tashkent, Khoresm and Fergana. Work to explore **medium term opportunities in regional transport and power infrastructure** also ongoing.
- **Policy engagement**, including exploratory discussions on investment climate, PPP framework & local currency lending. In June 2018 an MoU was signed on energy sector reform.

Key Observations & Way Forward

- Initial focus will be on credit lines, risk-sharing facilities & trade finance; once relationships with local banks re-established and end-borrowers better assessed, the Bank can offer more sophisticated financing. Given the significant role and regional footprint of state-owned banks, impactful delivery will require use of both private and state banks.
- Currency liberalisation should allow the Bank to extend beyond companies with export revenues to a larger pool of borrowers with a greater focus on the internal market. However the full impact may take time; balance sheets will need to be carefully assessed and flexibility in identifying opportunities applied in the interim.
- Recent streamlining of grant procedures should allow the Bank to capitalise on past relationships with clients and local consultants to quickly re-activate networks and redeploy business advice, although these procedures will need to be tested.
- Management of municipal and transport infrastructure remains centralised and the former can currently be funded only on a sovereign basis. Capacity constraints will take time to alleviate, a challenge for complex, long-term projects. Effective coordination with other IFIs will be critical.
- Identifying and building key relationships with reform-minded champions will be necessary to improve the investment climate and tap strong (if still cautious) FDI.

2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Uzbekistan - Main macroeconomic indicators

	2014	2015	2016	2017
GDP growth (% y-o-y)	8.1	8.0	7.8	5.3
CPI inflation (% avg.)	9.1	8.5	8.0	12.5
Government balance (% of GDP)	3.4	-1.2	-0.8	-0.1
Current account balance (% of GDP)	1.7	0.7	0.7	3.7
Net FDI (% of GDP)	-1.2	-0.1	-0.2	-0.2
External debt (% of GDP)	14.5	18.5	20.3	41.3
Gross reserves (% of GDP)	38.2	38.7	37.8	59.0
Public debt (% of GDP)	8.8	9.3	10.6	24.5
Unemployment (%)	9.0	8.9	8.9	5.8
Nominal GDP (\$bn)	63.2	65.4	66.8	47.9

- Uzbekistan's economy is moving significantly from an inward-oriented economic model towards a more open, integrated and export driven economy. Implementation of the reform programme to date has exceeded expectations in terms of its pace and scope.
- **Major steps have been taken to liberalise the foreign exchange regime**, by far the most important economic reform to date. Since 5 September 2017 the sum has been allowed to float freely with only marginal interventions to smoothen volatility, and currency controls have been loosened.
- **Real GDP growth was 5.3 per cent in 2017 and is projected to turn out marginally above 5 per cent in 2018**, supported by continued robust domestic and also foreign investment and the continued implementation of economic reforms.
- **Monetary policy was fairly accommodative until mid-2017, but has been tightened since.** In June 2017 the Central Bank increased its monetary policy rate from 9 per cent to 14 per cent in an effort to halt credit expansion. It has now begun to strengthen its instruments for steering liquidity and dollarisation. The fiscal position is sustainable, external debt low, and the current account in surplus.
- **Inflation reached double digits in 2017. It is expected to gradually decrease**, although likely to remain near 10% over the medium term as relative prices adjust. While export liberalisation also contributes to higher inflation, the pass through from devaluation has been limited thanks to the wide use of the unofficial exchange rate before the currency reform.

2. Economic Context

2.2. Key Transition Challenges

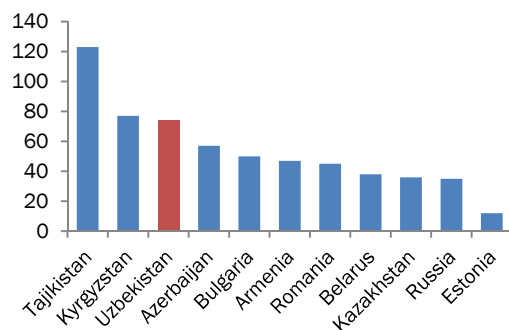


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Competitive (2.72)

- The significant presence and preferential treatment of SOEs and incumbent foreign-owned companies has hindered the entry of new firms and scaling up of existing ones.
- The domestic market was strongly protected until Sept. 2017, with currency convertibility restricted and a multiple exchange rate regime in place.
- Volatile electricity supply, insufficient access to finance and limited access to foreign markets has negatively impacted SME competitiveness.
- Private sector access to credit is moderate, with outstanding loans to GDP only around 29%.
- The business environment remains challenging, though Uzbekistan improved in the 2018 Doing Business Rankings.

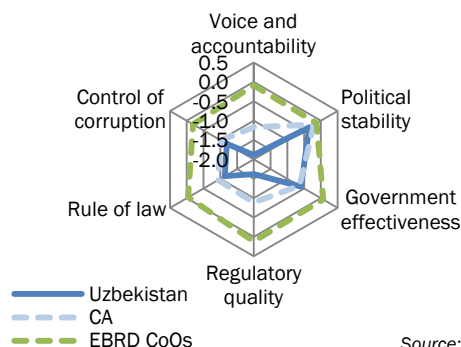
2018 Ease of Doing Business Rank



Well - governed (4.32)

- Uzbekistan ranks 148th out of 180 countries in the Index of Economic Freedom 2017 with low scores in regulatory efficiency and rule of law indicators.
- Significant progress has been made in several areas of regulatory efficiency. However, further streamlining the regulatory environment and decreasing the costs of complying with business regulations and reporting is needed.
- Availability and access to business data is still poor, with reporting methods often outdated. Greater commercialisation of SOEs would improve corporate governance.
- Corruption remains a concern and enhancing judicial capacity is also necessary.

Worldwide Governance Indicators

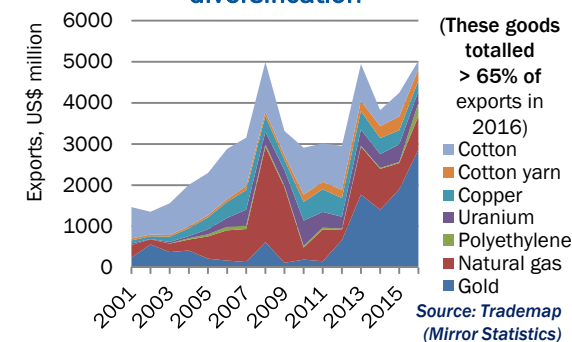


Source: WGI

Resilient (3.98)

- Uzbekistan is exposed to commodity price shocks, as exports are predominantly mining and cotton products.
- The banking system is characterized by significant state ownership. State directed lending is prevalent and disproportionately to SOEs. Lending to SMEs is heavily based on collateral and insufficient for their needs.
- NPLs are likely understated. However bank capitalisation concerns are partly mitigated by the state's capacity to support systemic state-owned banks.
- Power supply reliability is hampered by transmission bottlenecks and aging and increasingly unreliable electricity generation plants.

Export volatility due to insufficient economic diversification



Source: Trademap (Mirror Statistics)

2. Economic Context

2.2. Key Transition Challenges

Integrated (4.20)

- For a long time, Uzbekistan's trade and investment openness was impaired by heavy regulation and restrictions both on current account and capital account convertibility. Trade costs are high.
- **Transport infrastructure needs upgrading**, particularly outside main economic centres, to enhance both domestic & cross-border connectivity.
- **International logistics services** remain underdeveloped due to inefficiencies in customs and border clearance.
- **ICT infrastructure is still monopolised**, and several services are limited to urban areas.

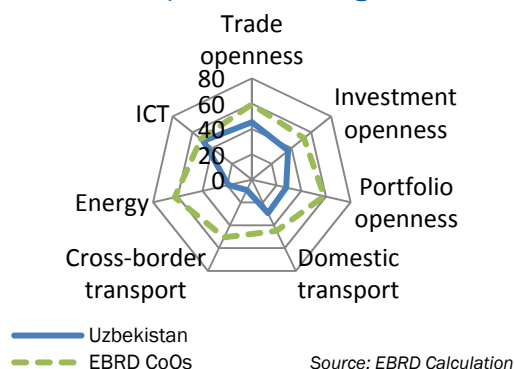
Green (3.20)

- Uzbekistan has the second highest energy intensity in Central Asia. Buildings account for around 40% of energy consumption, followed by industry (23%) and transport (8%).
- **Electricity and heat generation is currently dominated by natural gas** (75 per cent and 94 percent respectively).
- **Uzbekistan is water stressed and vulnerable to climate change impacts**, particularly in the agricultural sector.
- **The Aral Sea has been gradually shrinking**, losing 90 per cent of its volume since the 1960s.
- Very little **uranium remediation** has been done.

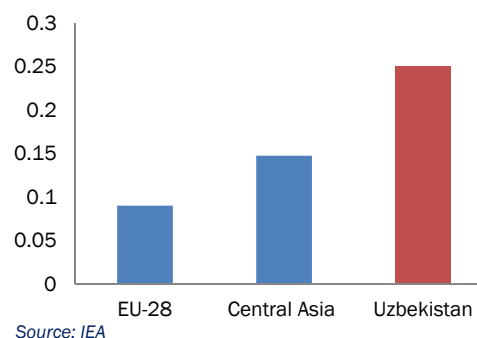
Inclusive (5.34)

- The majority of women are self-employed or undertaking unpaid family work.
- **Gender inequality in the labour market is exacerbated by laws restricting the industries in which women can work**, particularly in the mining, construction, metalworking & manufacturing sectors.
- There is a mismatch between the number of graduates and new jobs being created, particularly in technical disciplines and at the tertiary level.
- **Large disparities in the country's regional development** are reflected not only in employment and supply of infrastructure and electricity, but also in access to finance.

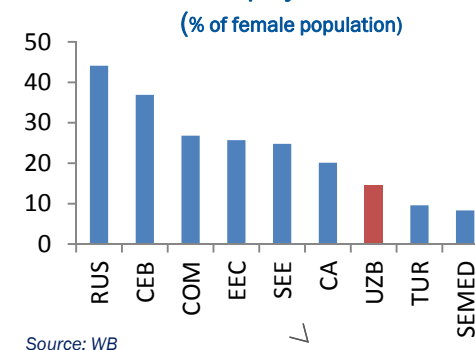
Sub-Components of Integration



Energy Intensity (TPES/GDP PPP)



Full Time Employment of Women



3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

The Government's 'Strategy of Actions in Five Priority Areas for the Development of Uzbekistan, 2017-2021' includes the following reforms:

- **Economic liberalisation:** Reducing the role of the state in the economy and promoting privatisation; promoting development of private entrepreneurship and small businesses; improving the investment climate and attracting foreign investment; enhancing efficiency of the banking sector; restructuring the agricultural sector, investment in modern technology.
- **Development of the social and environmental spheres:** Creating jobs, especially for young people and in regions; enhancing the role of women, including promotion of entrepreneurship; improving municipal services and utilities, including public transport and access to electricity; introducing modern waste and wastewater management; increasing energy efficiency, including by energy saving technology and renewable energy sources.
- **Constructive foreign policy:** Improving the legal framework for foreign economic activity; improving relations with neighbours to create a belt of security and stability around Uzbekistan; resolving border issues.
- **Rule of law:** Measures to ensure the independence of the judiciary and protection of civil and property rights; strengthening the legal system, including commercial and administrative law; new mechanisms for fighting corruption.
- **Good governance:** Strengthening the role of parliament, political parties and civil society; reform of public administration, including through training, decentralisation and e-governance; increasing transparency, public accountability; strong mass media.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Increased private sector participation in the economy, including enhanced small business support and advisory
- Strengthened lending capacity of financial institutions
- Development of effective mechanisms for public-private partnerships, e.g. via best practices and enabling legal framework
- Promotion of energy efficiency and green economy solutions, including regulatory support for renewables and energy efficiency
- Improved commercialisation and sustainability of municipal operators, including tariff reform
- Support for local currency lending and capital markets development
- Promotion of stable business environment, incl. through business councils and other platforms for Government-investor dialogue

3.3. Key Messages from Civil Society to EBRD

- The Bank's strengthened engagement in Uzbekistan is welcomed. Although there have been many positive developments, including in relation to freedom of expression, the environment for CSOs is still restrictive and human rights challenges remain.
- For all investments strong environmental and social standards are essential, both in due diligence and follow-up monitoring.
- Inclusive development remains a substantial challenge, with many people in the regions, especially women and youth, not yet benefitting from reforms.
- Institutional support and capacity building from IFIs will be critical given existing administrative gaps.
- Improved energy efficiency and development of renewables are much needed, although projects should be cost-sensitive.
- The sustainable development of cultural heritage resources and related infrastructure is a welcome innovation.

4. Defining EBRD Uzbekistan Country Strategy Priorities

What needs to change? (Section 2)	Can it be changed? (Section 3)	What can the Bank do? (Section 4)	Strategic Priorities (2018-2023)	What we want to see in 2023
<ul style="list-style-type: none"> Significant role of the state in the economy distorts competition Shallow financial system with limited access to finance for SMEs and the private sector Many SOEs lack effective governance & institutional capacity Insufficient econ. diversification Challenging business climate, incl. complex taxation & overregulation Insufficient job opportunities for a rapidly growing population, including in less developed regions 	<ul style="list-style-type: none"> Strong government commitment to strengthen small businesses and entrepreneurship, ease access to credit and reform the business environment Effort to intensify reforms in line with UN SDGs through innovation, entrepreneurship and technology Administrative capacity to deliver reform agenda needs to be strengthened Foreign investors remain cautious given previous difficulties 	<ul style="list-style-type: none"> EBRD can mobilise SME finance and private sector investment Effective instruments to support SMEs across regions, incl. CLs and advisory Strong track record in developing local currency finance, enhancing lending capacity and strengthening the banking sector EBRD can promote and support viable privatisations; extensive experience in SOE commercialisation EBRD can assist investment climate reform measures 	Enhancing competitiveness by strengthening the private sector's role in the economy	<ul style="list-style-type: none"> Stronger SMEs and increased role in the economy Strengthened capacity of private sector companies to grow and add value Increased commercialisation and private participation in state-dominated sectors Improved business environment
<ul style="list-style-type: none"> High energy and carbon intensity Volatile electricity supply and inefficient use of energy/resources Quality and sustainability of MEI needs improvement Low share of renewables in the energy mix Significant water stress and vulnerability to climate change Environmental hazards from uranium mining legacy persist 	<ul style="list-style-type: none"> Government priority to modernise municipal infrastructure and improve service quality & efficiency Government commitments, including under its COP21 INDC, to enhance energy savings, access to clean water & environmental safety Significant renewables potential, particularly solar ERA Framework Agreement ratified 	<ul style="list-style-type: none"> Considerable experience helping develop sustainable and efficient MEI and supporting sector reform Specialised expertise to finance green investments (GET, SEFFs) EBRD finance and advisory can help unlock renewables potential EBRD can fund, incl. with other IFIs, more efficient energy generation, transmission and distribution Expertise in uranium remediation 	Promoting green energy and resource solutions across sectors	<ul style="list-style-type: none"> Improved energy and resource efficiency Improved performance and service delivery of municipal infrastructure Increased use of renewable energy Enhanced environmental protection
<ul style="list-style-type: none"> Inward looking economic model with tariff and non-tariff barriers Transport infrastructure needs upgrading, in particular connectivity with neighbours ICT infrastructure needs upgrading to improve broadband access Insufficiently developed supply chain and export channels & logistics bottlenecks inhibit trade Unrealised tourism potential and weak related infrastructure 	<ul style="list-style-type: none"> High-level, ongoing efforts to re-engage with neighbouring countries Strategic location to leverage Belt and Road Initiative transport projects Government exploring PPP options Currency liberalisation may open additional investment opportunities Emphasis on import substitution still part of industrial policy Tourism & related infrastructure can increase regional connectivity and stability 	<ul style="list-style-type: none"> Along with IFI partners, EBRD can help narrow transport infrastructure gap and improve ICT infrastructure, while promoting commercialisation and private sector participation EBRD can support regional energy cooperation, including networks EBRD involvement can catalyse FDI and TFP programs can mobilise exports and firm expansion EBRD Cultural Heritage investments can boost tourism and improve municipal & transport infrastructure 	Supporting increased regional and international co-operation and integration	<ul style="list-style-type: none"> Improved quality and connectivity of transport, energy and ICT networks Enhanced exports, regional and international trade, and integration

5. Activities and Results Framework

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

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Stronger role of SMEs in the economy through enhanced access to finance and capacity	<ul style="list-style-type: none"> Provide direct finance and advice to promising, high-potential SMEs, including women-led and across regions, to build capacity and improve competitiveness and governance Provide intermediated finance to MSMEs via general and targeted credit lines (e.g. for Women-in-Business and green investments) and risk-sharing facilities through local state owned and private banks, coupled with technical assistance to improve MSME lending capacity Explore mechanisms for developing local currency lending, including policy engagement to help develop local money and capital markets 	<ul style="list-style-type: none"> Number of advisory clients reporting increased productivity or turnover Total number/volume of MSME loans outstanding of PFIs (incl. WiB, LCY)
Strengthened capacity of private sector companies to grow and add value Increased commercialisation and private sector participation in state-dominated sectors	<ul style="list-style-type: none"> Provide direct finance, including by supporting FDI, to competitive, growth-oriented private companies to help them expand, improve standards, become more energy/resource efficient, promote local skills development and enhance inclusion, and integrate into regional and global value chains, where possible in local currency and with a primary focus on the agribusiness, manufacturing and services and ICT sectors Selectively engage with SOEs to: <ul style="list-style-type: none"> promote improved governance, financial & operational performance (incl. energy/resource efficiency improvements) & commercialisation; encourage and support transparent privatisation and provide related financial and advisory support for pre-privatisation efforts; and where possible, increase private sector participation, incl. via PPPs 	<ul style="list-style-type: none"> Number of clients reporting increase in sales/turnover/revenue Number of clients improving corporate governance and/or standards (incl. SOEs)
Improved business environment	<ul style="list-style-type: none"> Policy engagement to strengthen public-private sector dialogue, including through business councils and associations, promote a stable and predictable business environment and attract investment, and increase economic opportunities for women Support improved corporate governance, development of a transparent and competitive public procurement regime and PPP and SME frameworks 	<ul style="list-style-type: none"> Legal, institutional and regulatory changes to improve the business environment

5. Activities and Results Framework

Priority 2: Promoting green energy and resource solutions across sectors

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<p>Improved energy and resource efficiency</p> <p>Improved performance and service delivery of municipal infrastructure</p>	<ul style="list-style-type: none"> Support energy and resource efficiency, environmental remediation and climate change mitigation investments in the public, private and commercial sectors, including in extractive industries and buildings Support cleaner and more efficient energy generation, transmission and distribution; potential energy/resource efficiency and environmental remediation investments across the oil and gas production value chain; reduction of associated petroleum gas flaring; modernisation and construction of gas pipeline systems; and processing and rehabilitation of existing gas-fired capacity Finance energy and resource efficient modernisation of municipal infrastructure services, including water and wastewater, solid waste, district heating, street lighting and urban transport, potentially in conjunction with the Green Cities Initiative Related policy engagement to address institutional challenges in the MEI sector, e.g., tariff reform, commercialisation of municipal service providers, and increased energy and resource efficiency 	<ul style="list-style-type: none"> Total energy saved (GJ/y) Total CO₂e reduced (ton/yr) Total water saved (volume/y) Improved quality and efficiency of municipal and energy infrastructure
Increased use of renewable energy	<ul style="list-style-type: none"> Seek opportunities to finance renewable energy investments in solar, wind and hydropower, with related policy engagement (e.g. development of ETS) to develop the regulatory framework 	<ul style="list-style-type: none"> Renewable energy capacity installed (MW)
Enhanced environmental protection	<ul style="list-style-type: none"> Support eligible uranium remediation projects under the EBRD Environmental Remediation Account (ERA) for Central Asia Support green investments across all industrial sectors, including gasification 	<ul style="list-style-type: none"> Number of remediation projects completed according to international standards

5. Activities and Results Framework

Priority 3: Supporting increased regional and international co-operation and integration

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Improved quality and connectivity of transport, energy and ICT networks	<ul style="list-style-type: none"> Seek opportunities to upgrade transport infrastructure to enhance regional connectivity, including investments to rehabilitate and maintain main road corridors, upgrade the railway network (including rolling stock), improve airports and related infrastructure, and develop logistics centres and freight operators, where possible in a way that addresses inclusion challenges Support enhanced energy connectivity by upgrading regional gas and electricity transmission and distribution networks Consider investment opportunities with select transport, ICT and energy SOEs to advance commercialisation and procurement reform, and improve capacity Support initiatives to enhance countrywide access to information and communication technologies, including fast internet connectivity 	<ul style="list-style-type: none"> Improved/increased transport infrastructure capacity
Enhanced exports, regional and international trade, and integration	<ul style="list-style-type: none"> Facilitate greater regional and international trade and FDI by: <ul style="list-style-type: none"> supporting companies, including SMEs, in developing export competitiveness via enhanced supply chain linkages and export channels and compliance with relevant international quality standards and certifications; working with private and state-owned financial institutions to capitalise on the Bank's trade facilitation programme (e.g., through trade finance and export support facilities); and engaging with state investment authorities and potential investors on possible sectoral opportunities, including advisory and finance Strengthen regional connectivity and integration by deploying financial resources and technical assistance to develop cultural heritage locations and support infrastructure to boost tourism (e.g., hotels, tourism SMEs and related municipal and transport infrastructure) 	<ul style="list-style-type: none"> Number of clients increasing exports Total number/volume of TFP transactions supported

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



European Bank
for Reconstruction and Development

EBRD BUSINESS AREAS																						
		Sectors															Other					
		Corporate				Energy		Infrastructure				Financial					Green Transition			Inclusion		
Indicative average annual investment/ grants (2014-2017, € million, excl. budget support) ¹		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Regional
ADB	532	€		€		€	€	€		€	€	€		€			€		€	€		€
JICA	386						€										€					
WB	384	€		€			€	€		€	€	P				P	€		€		€	€
IsDB	116		€				€	€				€		€			€					
AFD	100	€						€									€		€			
IFC	22	€	€									€	€	€								
GIZ	14	€						€									€					€
KOICA	8				€			€	€												€	
EU	5	€						€						€						P	€	P
EBRD	69	€	€		€	€	€	€			€	€	€	€			€	€	€	€		
€ Area of significant investments P Area of significant policy dialogue Focus mostly on private sector Focus mostly on public sector																						

€ Area of significant investments

P Area of significant policy dialogue

● Focus mostly on private sector

○ Focus mostly on public sector

Areas for future cooperation²

Competitiveness

- Improve access to finance, incl. through capital markets development, in cooperation with WB, IFC and ADB
- Work with the WB and UNDP to support improvements in the investment climate and good governance

Green

- Partner with ADB and IFC to support reforms and consider co-financing renewables
- Partner with IFC and JICA to co-finance MEI projects and/or support related reforms, including introducing PPPs

Integration

- Co-finance with ADB and WB **transport** infrastructure to increase regional integration











Inclusion

- Partner with UNDP on projects to promote gender equality and women's economic empowerment

1. Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investment signed between 2014-2017. EBRD line 2017 only. EIB (agribusiness, railways, electric power and sustainable energy) and AIIB (electric power and railways) are also expected to be active in the forthcoming strategy period.

2. Particular areas and partners identified for potential collaboration are not exclusive.

7. Implementation Risks, Environmental and Social Implications

Risks to Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> High liquidity in financial markets: state-owned banks dominate the financial markets and have non-commercial sources of funding, which may render EBRD finance unattractive. 			<ul style="list-style-type: none"> Assessment and Management of Environmental and Social Impacts, Stakeholder Engagement: Ensure that direct, indirect and cumulative impacts of projects are appropriately assessed and mitigated, applying all applicable national and EU regulatory requirements, and work with clients to ensure adequate E&S implementation capacity. EBRD will help improve clients' CSR knowledge & practice and stakeholder engagement.
<ul style="list-style-type: none"> Data availability and quality: monitoring of projects may require additional effort and dialogue, as available and reliable data is somewhat limited. This may affect the pace of projects requiring sovereign support, including MEI and SME lending through state banks. 			<ul style="list-style-type: none"> Labour and Working Conditions: Ensure clients' HR policies and labour practices comply with EBRD requirements, paying particular attention to workers organizations, child and forced labour, working time and wage standards, potential discrimination towards minority groups and women, and employment terms and conditions of migrant workers. Large scale retrenchment may be associated with privatisation and will require specific planning. Supply chain management, especially in agriculture, will be closely monitored.
<ul style="list-style-type: none"> The impact of currency conversion on inflation may take time to fully manifest and may adversely affect company financial statements, making risk appraisal of potential clients a lengthy and challenging process. 			<ul style="list-style-type: none"> Resource Efficiency and Pollution Prevention and Control: EBRD's investment priorities will aim to reduce water and soil contamination and degradation, GHG emissions and use of chemicals adversely impacting environment and human health. EBRD will help improve solid waste management, including infrastructure and systems to encourage separation at source and recycling. EBRD will also promote projects with GET elements to support a shift to a less energy intensive economy and lower levels of air pollution.
<ul style="list-style-type: none"> Business environment and the risk of reform delays: many EBRD activities depend on strong investment flows, good governance and transparent regulation. While many positive initial steps have been taken to improve the business environment, implementation could be slowed or halted due to limited capacity and/or vested interests. 			<ul style="list-style-type: none"> Health and Safety: EBRD will aim to improve occupational and community health & safety culture and practice. Road safety and client fleet management are priority issues for transport projects and may require TC funds. Public access to clean drinking water and overall food safety are other priorities.
<ul style="list-style-type: none"> Government treatment of grants: in the past, recipients of EBRD grants (e.g. SME or MEI clients) have encountered problems in securing the necessary Government approvals. The effectiveness of the new streamlined procedures will need to be tested. 			<ul style="list-style-type: none"> Land Acquisition, Involuntary Resettlement and Economic Displacement: EBRD will encourage clients to improve consultation and information provision with affected people. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with EBRD requirements. Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy and infrastructure projects may have impacts through encroaching or fragmenting sensitive habitats, protected areas or proposed or existing Emerald Network sites. Extensive water use leading to scarcity and land degradation can also result in loss of habitat and biodiversity impacts. EBRD will ensure robust biodiversity impact assessments of sensitive projects are carried out and provide TC support where needed. Cultural Heritage: Work with clients to identify and consult with key stakeholders to protect sensitive cultural heritage. Financial Intermediaries: Ensure that FI partners have adequate E&S capacity and risk management procedures in place and diligently apply relevant E&S requirements to projects financed under EBRD credit lines. Monitoring and supervision: Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio. Use TC funds to support capacity building and awareness improvement.

8. Donor Co-Financing Assessment

8.1. Grant Needs Assessment for the New Country Strategy Period

Grant funding will be required to achieve the strategic objectives of the Country Strategy, including support for:

- Private sector development through PFI support for MSME credit lines, including in local currency, and deployment of small business advisory services;
- Green economy transition through the implementation of the EBRD's Green Economy Financing Facility;
- Financing and preparation of "green" projects in the municipal sector;
- Interconnectivity improvements in regional infrastructure and the energy sector (medium term);
- Technical assistance will be needed for policy engagement and legal reforms. Priority areas include capacity building, a renewables law (tariffs framework), MSME legislation, business councils and investment climate reform, a PPP legal framework, procurement legislation and local currency lending.

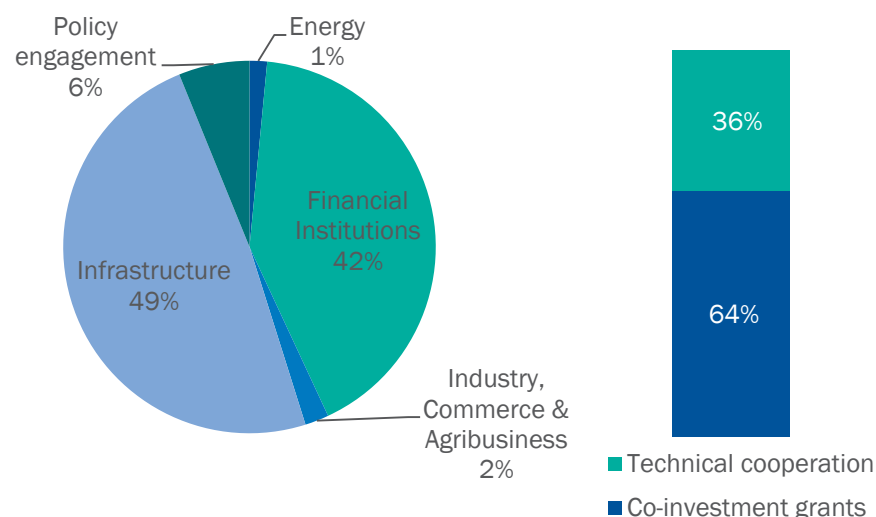
Selected Affordability Indicators

		EBRD regional percentile rank ¹
GDP per capita (PPP, current int. \$) ²	6,563	8 th (CoOs)
ODA Country	YES	
ODA as share of Gross National Income (%) ³	0.67	24 th
ODA per capita (\$ - current prices) ³	14.4	16 th

8.2. Potential Sources for Grant Funds

- Donor support will be channelled through multi-donor funds: the EBRD **Small Business Impact Fund (SBIF)** and **EBRD Early Transition Countries fund** and other **bi-lateral donor funds**.
- The **EU** provides grant funding for regional projects under the Investment Facility for Central Asia (IFCA) to support regional development and SME competitiveness. Possible new EU funds for sustainable energy projects in Central Asia are currently under consideration.
- EBRD will further explore opportunities to access funding from the **Green Climate Fund** and the **Global Environment Facility**.
- The **EBRD Shareholder Special Fund** is a complementary facility to donor resources, where advancing transition is a priority area.

Grant Funding Needs by sector and type– EUR 33 million ⁴



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in case of ODA indicators) that are represented below Uzbekistan. 2. IMF (2016). 3. OECD (2016).

4. The analysis is based on input from operational teams throughout the Bank for Funding Outlook 2018. **PUBLIC**

ANNEXES

Annex 1 – Political Assessment in the Context of Article 1

Uzbekistan is committed to and applying, albeit unevenly, the principles set out in Article 1 of the Agreement Establishing the Bank. Serious concern was expressed in the past about Uzbekistan's compliance with and application of Article 1 but significant progress has been made in recent years. After about 2013, there were tentative signs that Uzbekistan's record on governance issues and human rights, about which international bodies and organisations had repeatedly raised serious concerns, had started to improve.¹ However, the EU human rights report for 2016 expressed concern that, "human rights challenges [in Uzbekistan] continue to exist across the board". It noted that, although the situation was improving, it was starting "from very problematic levels".²

Since the election of President Mirziyoyev in December 2016, the pace of improvement has accelerated significantly. In February 2017, the Government published a Strategy of Actions in Five Priority Areas for the Development of Uzbekistan, 2017-2021 (the 'Development Strategy'), which set out a comprehensive programme of reform, including political, administrative and judicial aspects. In 2017 and early 2018, the Uzbek authorities issued a series of statements, decrees and laws which have already positively affected many aspects of the country's life and which pave the way for significant progress in the future.

The President has comprehensively re-shuffled his administration and made a series of appointments at the regional level, in some cases bringing in a younger generation of officials with a broader range of educational and professional experience. There has been a thorough re-organisation of the bodies responsible for maintaining security and law enforcement. The willingness of the Uzbek authorities to engage with international bodies and organisations responsible for monitoring and promoting democracy and human rights is another positive sign.

Much now will depend on implementation. The reform process has begun from a low base but progress has been significant. Change has been particularly marked in areas such as the rule of law and judicial independence. There has also been considerable progress in making the government administration more transparent and accountable. While the Uzbek authorities have demonstrated a strong commitment to reform, further steps in strengthening democratic institutions, in expanding the space in which civil society can operate, in allowing greater media freedom and in promoting women's participation are anticipated.

Free Elections and Representative Government

Free, fair and competitive elections

The Uzbek Constitution, adopted in 1992 and amended several times, sets out the legal basis for the conduct of free elections and a representative Government. Chapter VIII sets out the right of citizens to participate in the political life of the country. Chapter XXIII states that the rights of citizens to equal suffrage are guaranteed by law. It also states that a Central Electoral Commission established on the principles of "independence, the rule of law, collegiality, transparency and justice" is responsible for administering elections. Article 76 states that members of the upper house of parliament (Senate) and of the legislative house (Oliy Mazhilis) serve for a five year term. Article 90 stipulates that the President is elected by citizens on the basis of "universal, equal and direct" suffrage for a term of five years.

1. Opening Remarks by UN High Commissioner for Human Rights Zeid Ra'ad Al Hussein at a Press Conference during his Mission to Uzbekistan, May 2017.

2. EU Annual Report on Human Rights and Democracy in the World in 2016, October 2017, p 94-6.

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Application of the principles relating to free elections and representative government in Uzbekistan since independence has been weak. Elections have generally been held on a regular basis applying the principle of universal suffrage, with voters being formally presented with a number of candidates, but the overall atmosphere in which elections were held did not allow voters to make a free or meaningful choice.³ The Uzbek authorities only partially adopted the recommendations of limited OSCE Office for Democratic Institutions and Human Rights (ODIHR) election missions, which were designed to bring legislation up to international standards and to eliminate abuses.⁴

ODIHR noted a new approach by the Uzbek authorities in the run-up to the December 2016 presidential elections. After receiving assurances that they intended to conduct the elections in accordance with international standards, an ODIHR Election Needs Assessment mission recommended that a full Election Observation Mission be deployed to Uzbekistan for the first time.⁵

The Final Report of the Election Observation Mission concluded that the Presidential elections “underscored the need of comprehensive reform to address long-standing shortcomings”. It set out a series of recommendations to bring Uzbekistan’s election legislation up to international standards. They included both measures to democratise the overall environment in which elections are held and more specific proposals including a new unified electoral code and a centralised voter register.⁶

The Central Electoral Commission is preparing a series of measures designed to implement these recommendations. In December 2017, in elections to district assemblies in Tashkent, a unified, electronic voter registration list was used for the first time. The next parliamentary elections are scheduled for the end of 2019 and the next presidential elections for the end of 2021.

Separation of powers and effective checks and balances

The Uzbek 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.

An attempt to address the imbalance between the branches of state power was made in constitutional amendments adopted in 2011 and 2014 which transferred powers from the President to the Prime Minister and Parliament. In 2011, the power to nominate the candidate for Prime Minister was transferred to the majority party in the Oliy Majilis for confirmation by the President. Parliament was also given the power to require the President to remove the Prime Minister and Cabinet with the support of a vote of two thirds of MPs. In 2014, the Prime Minister was given increased powers to formulate social and economic policy. However, in early 2017, ODIHR raised concerns over the formal division of powers and, in practice, power continues to be highly centralised in the presidency.⁷

3. OSCE/ODIHR Limited Election Observation Mission, Final Report, June 2015.

4. OSCE/ODIHR and European Commission for Democracy through Law (Venice Commission) Joint Opinion, 2012.

5. OSCE/ODIHR Needs Assessment Mission Report, October 2016.

6. OSCE/ODIHR Election Observation Mission Final Report, March 2017.

7. OSCE/ODIHR Election Observation Mission Final Report, March 2017

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There were some signs of progress in 2017. Whilst the President has continued to set the Government's economic and social priorities and has continued to exert a decisive influence on Government appointments, the Cabinet of Ministers has been strengthened with the creation of additional Deputy Prime Minister posts and restructured administrative, analytical support bodies, the independence of the Central Bank has been strengthened and some fiscal powers have been devolved to the regions.

The Development Strategy called for, "The strengthening of the role of the Oliy Majilis (lower house of parliament), further expansion of its powers in resolving the most important tasks of internal and foreign policy and implementing parliamentary control over the executive". During 2017, parliamentarians held regular hearings at which senior government officials were held to account and increased their monitoring of the implementation of legislation. The parliament's analytical capacity was enhanced to support this work. These reforms begin from a low base and, while progress has been achieved, further steps are anticipated.

The Development Strategy also called for measures to ensure "the true independence of the judiciary, increasing the authority of the courts and the democratisation and improvement of the judicial system." A series of measures were adopted in 2017 which should ensure a significant strengthening of the judicial branch. The most important of these was the creation of a Supreme Judicial Council (see below) which transferred important powers away from the presidency to an independent body. But they also include the merging of the Supreme Economic Court with the Supreme Court, which along with the Constitutional Court, creates a more rational and authoritative court of final appeal. The introduction of a system of administrative law will also strengthen the power of the judicial branch (see below).

Effective power to govern of elected officials

The Uzbek Constitution sets out the legal basis for the country's elected officials to have effective power to govern. Article 7 signalled a break with the country's Communist past and stated that state power is wielded "exclusively by bodies authorised by the Constitution of Uzbekistan and by legislation adopted on its basis". In practice, decision-making in Uzbekistan has not been transparent and the application of due process has been inconsistent.⁸

In his December 2017 State of the Nation address to parliament, the President promised reform of the National Security Service (NSS), whose "powers had become unjustifiably enlarged." Since the end of 2016, a series of paramilitary units had been removed from the NSS and put under other bodies. In February 2018, the President removed the long-time head of the NSS and a number of other senior officials in the NSS and General Prosecutor's Office were dismissed. At the beginning of April, the President signed a new law on the re-named State Security Service which, for the first time, set out the legal basis for the body's existence and defined its specific areas of responsibility and gave parliament and the General Prosecutors Office a role in ensuring its accountability.

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

8. The World Bank, *Worldwide Governance Indicators*, 2016.

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Civil Society, Media and Participation

Scale and independence of civil society

The Uzbek Constitution sets out in Chapter VIII the legal basis for Uzbek citizens to form non-governmental organisations to aid their participation in public affairs, to hold the state to account and to promote their interests. Article 58 guarantees the rights of civil society organisations and opportunities for them to participate in public life. However, Article 57 prohibits civil society organisations from conducting activities in a range of areas which gives legal grounds for wide-ranging restrictions on their ability to operate effectively.

In 2015 and 2016, new legislation set out onerous registration procedures for civil society organisations which created serious barriers to the registration of new civil society organisations and led to the closure of existing ones.⁹ By the late 2000s, large numbers of voluntary associations working on less controversial issues, such as women's entrepreneurship or the environment, were active in Uzbekistan. They tended to pursue objectives which were compatible with official policy and sometimes received grants from state bodies. However, it was almost impossible for citizens to form independent civil society organisations working on political and human rights.¹⁰

Since the end of 2016, the environment in which civil society organisations work has improved from a low base. The Development Strategy includes "strengthening the role of civil society" as one of its objectives. Representatives of civil society have been included in the new Supreme Judicial Council, have met with international human rights organisations and participated in public discussions on forced labour in the cotton harvest. Civil society organisations are regularly consulted on draft laws. There has also been some relaxation of restrictions on the right to hold small protests. In May the President issued a decree which holds out the prospect of a significant relaxation in the regulatory framework for civil society organisations, but the degree of improvement will depend on how it is implemented.

Article 34 of the Uzbek Constitution guarantees the rights of citizens to form trade unions. Article 57 states that trade unions should defend the rights and interests of workers and that membership is voluntary. The Uzbek authorities have recently been taking steps to improve conditions for labour associations. Since 2014, an ILO Decent Work Programme (DWP) has been operating in Uzbekistan, covering a broad range of labour and social protection issues. In December 2016, Uzbekistan ratified the 1948 Convention on the Freedom of Association and Protection of the Right to Organise meaning that it had ratified all the major ILO conventions. In February, 2017, the Uzbek authorities extended the application of the DWP to 2020.

Independent, pluralistic media that operates without censorship

The Uzbek Constitution sets out the legal basis on which mass media can operate freely. Articles 29 and 67 set out citizens' rights to receive and spread information and for independent mass media. However, it also sets as criteria that such information must not "be directed against the existing constitutional order" and that mass media must bear "responsibility for the credibility of information".

Experts have generally concluded that, for most of its existence as an independent country, the Uzbek state exerted control over the content of all major media outlets. State television and print media restricted itself to publishing information about a restricted range of approved topics. Access to foreign-

9. OSCE/ODIHR Election Observation Mission Final Report, March 2017.

10. UN Human Rights Committee. Concluding observations on the fourth periodic report of Uzbekistan, 2015, para 24.

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based media, including digital media, was subject to restrictions and independent journalists were subject to persecution.

Since the end of 2016, there have been moves towards greater openness and pluralism. The 2017 Development Strategy set out the need to “strengthen the role of the mass media [and] the protection of journalists’ professional activities”. There have been live broadcasts on the main television channels, including through the International Press Centre, of probing interviews with ministers and government officials and wide-ranging debates on controversial issues, such as the use of forced labour in the cotton harvest.

A number of privately-owned digital television stations have been established. The range of material available in state-controlled and regular print media (including online editions) has become wider with more freedom for comment. A number of foreign-based and opposition websites which were effectively blocked for internet users in Uzbekistan have become available. These reforms begin from a low base and, while progress has been achieved, further steps are anticipated.

Freedom to form political parties and existence of organised opposition

The Uzbek Constitution sets out the legal basis on which political parties can be established. It also sets out wide-ranging criteria which regulate their existence. Article 56 states that political parties are permitted if they have been registered by the authorities. Article 57 sets out the grounds on which political parties can be prohibited. Article 60 states that political parties “express the political will of different social strata and groups” and that they must present to parliament information about their sources of funding.

Currently, four political parties are registered in Uzbekistan. They are designed to appeal to discrete groups within society, are all represented in parliament and all broadly support the government. In early 2017, ODIHR raised concerns that the situation of political parties in Uzbekistan could leave it in breach of its international obligations under, *inter alia*, the UN 1996 International Covenant on Civil and Political Rights.¹¹ While the Development Strategy identifies “strengthening of the role of parliament and political parties” as important priorities, reforms in this area begin from a low base and further steps are anticipated.

Rule of Law and Access to Justice

Supremacy of the law

The Uzbek Constitution sets out the legal basis for the supremacy of the rule of law. Article 15 sets out the principle of the “unconditional supremacy of the Constitution and laws of the Republic of Uzbekistan”. Article 19 states that citizens cannot be deprived of the rights and freedoms, as set out in the Constitution and by law, except by a court. Article 25 states that citizens cannot be detained, except according to procedures laid down by law. Article 26 sets out the presumption of innocence. Article 116 sets out the right of citizens to receive “professional judicial assistance” at every stage of a court proceeding. However, international bodies responsible for monitoring human rights have repeatedly expressed concern about the poor application of these principles in Uzbekistan.¹²

11. OSCE/ODIHR Election Observation Mission Final Report, March 2017.

12. UN Human Rights Committee. Concluding observations on the fourth periodic report of Uzbekistan, 2015, paras 15-17.

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Since the end of 2016, the Uzbek Government has adopted a series of measures to strengthen the power of the judiciary over law enforcement agencies and ensure fair trials. The President has spoken repeatedly about the need for the principle of *habeas corpus* to be applied consistently. In April 2017, the law was amended to reduce the amount of time detainees could be held in pre-trial detention without a court hearing from 72 to 48 hours. He has also called for a strengthening of judicial control over investigations by law enforcement agencies. One important measure was a decree to ensure that interviews with detainees are recorded and that video cameras are installed where detainees are held.

Article 93(19) sets out the circumstances in which the President can declare a state of emergency. In June 2016, in response to a recommendation of the UN Human Rights Committee, a law setting out in detail the circumstances and procedures for applying for the declaration of a state of emergency was approved.

International bodies responsible for monitoring and promoting human rights continue to call upon the Uzbek Government to ensure that the victims of the “Andijan events” are not forgotten and their grievances are addressed.¹³

Independence of the judiciary

The Uzbek Constitution sets out the legal basis for the independence of the judiciary. Article 106 sets out that the judicial branch “operates independently of the legislative and executive branches, of political parties and other public organisations”. Article 112 sets out that judges are “independent and are only subject to the law. Any interference in the activity of judges in carrying out their duties is unacceptable”. The same Article sets out that judges enjoy “immunity” subject to the law. However, experts have raised concerns about the extent to which, in practice, the judiciary can operate independently of the executive branch and other formal and informal sources of power.¹⁴ In 2015, the UN raised concerns about a 2009 law which had the effect of subordinating the formerly independent Chamber of Lawyers to the executive.¹⁵

In 2017, important steps have been taken to strengthen the independence and powers of the judiciary. The Development Strategy sets out as its second priority: “the guaranteeing of the supremacy of the law and the further reform of the judicial-legal system”. In February, a presidential decree transferred important powers over the selection, promotion and disciplining of judges from a commission within the Presidential Administration to a new Supreme Judicial Council whose 21 members are made up of government officials, representatives of the legal profession, legal experts and civil society representatives approved by the President. The Chairman of the Council is nominated by the President and approved by the Senate. The same decree also established the principle that judges should be guaranteed security of tenure, which was a recommendation of the UN Human Rights Committee.

Government and citizens equally subject to the law

The Uzbek Constitution sets out the legal basis for the equality of Government and citizens before the law. Article 18 states, “All citizens of the Republic of Uzbekistan have the same rights and freedoms and are equal before the law... Privileges can be set out only by law and must conform to the principles of social justice.” However, experts have raised concerns about the extent to which, in practice, implementation of these principles has been consistent and

13. Opening remarks by UN High Commissioner for Human Rights Zeid Ra'ad Al Hussein at a press conference during his mission to Uzbekistan, May 2017. This refers to the mass killings, allegedly by Uzbek security forces, which took place in the city of Andijan in 2005.

14. US State Department Uzbekistan 2016 Human Rights Report.

15. UN Human Rights Committee. Concluding observations on the fourth periodic report of Uzbekistan, 2015, para 21.

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have suggested that individuals with political connections or working in law enforcement bodies have not always been held accountable for abuses.

A series of measures were adopted in 2017 which were designed to tackle these shortcomings. Most prominently, online portals have been established which allow citizens to lodge complaints against state bodies, including the presidency, and officials. These mechanisms have proven popular and effective. The President reported in his 2017 State of the Nation address to parliament that 1.5 million citizens had made enquiries to these portals at all levels and that many problems had been resolved.

The first steps have also been taken to create a system of administrative law which would give businesses, civil society organisations and citizens more power to hold official bodies and individuals to account. Parliament is considering a law on Public Control which would establish public councils attached to state bodies through which the public can hold them to account.

Effective policies and institutions to prevent corruption

Corruption has been regarded as a significant problem in Uzbekistan. The 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 corruption. Uzbekistan's ranking in Transparency International's 2016 Corruption Perception Index has remained low (156 out of 176), although there has been a gradual improvement since the mid-2000s. Until recently, experts concluded that the government's efforts to combat corruption were made up of periodic campaigns against corrupt individuals, including highly-placed figures, without consistency or coordination.¹⁶

However, in 2017, a series of measures were adopted which should lead to more substantive progress. In January, the President signed a Law on Countering Corruption. Subsequently, a new Interdepartmental Commission for Countering Corruption was established under the General Prosecutor, bringing together representatives of 43 state bodies and legislators. Until then, there had been no body with responsibility for the overall coordination of efforts to counter corruption and its creation had been a key recommendation of international bodies responsible for fighting corruption. These legal and institutional changes come in the context of measures to reduce the bureaucratic burden on business, including the carrying out of unannounced and arbitrary inspections, and the introduction of the convertibility of the Sum which should significantly reduce the vulnerability of business and individuals to corrupt officials.

Civil and Political Rights

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

The Uzbek Constitution sets out the legal basis on which citizens can enjoy fundamental civil and political rights. Article 13 states that democracy in Uzbekistan is "based on the universal principles in accordance with which the highest value is attached to the person, his life, liberty, honour, dignity and other inalienable rights". Chapter VII sets out a wide range of rights and freedoms. Uzbekistan is a member of the UN and OSCE and a state-party to more than 70 international human rights instruments, including 6 out of the 9 core human rights conventions as well as 4 optional protocols.¹⁷ The EU conducts an annual Human Rights Dialogue with Uzbekistan.

¹⁶ Anti-Corruption Reforms in Uzbekistan. Round 3 Monitoring of the Istanbul Anti-Corruption Action Plan, OECD.

¹⁷ UNDP Uzbekistan, website.

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International bodies have often been highly critical of the human rights situation in Uzbekistan, both formally and in practice. The EU concluded in its 2016 report on the state of human rights around the world that, “The main areas of concern remained: respect for fundamental civil and political rights, the regulatory environment for civil society and prosecution on political grounds, the treatment of detainees/prevention of torture, and issues relating to the work of human rights defenders”.¹⁸ Allegations of large numbers of prisoners being held for political reasons were widely considered credible.

From around 2013, there were some signs of progress. In 2014, the Uzbek Government adopted a National Action Plan (NAP) on the implementation of recommendations made by UN Treaty Bodies on human rights and the Universal Periodic Review. In November 2016, the UN Office in Uzbekistan signed an agreement with the National Human Rights Centre on a project to implement the NAP.

In 2017, the Uzbek authorities took further steps which should ensure more substantive progress. They revived their cooperation with UN human rights agencies. In May 2017, the UN High Commissioner for Human Rights, Zeid Ra’ad Al Hussein made the first ever visit by a UN HCHR to Uzbekistan. He agreed with the President that the Regional Office of the OHCHR, based in Bishkek, would start work in Uzbekistan. The UN HCHR noted during his visit to Uzbekistan, “the need to continue – as quickly as possible – with the release of more political prisoners, some of whom have been serving very long sentences...”¹⁹

In October, the UN Special Rapporteur on Freedom of Religion and Belief made his first visit to Uzbekistan for 15 years. The Government had already signalled a softening of its approach to religious believers: in August it reduced the number of people who were subject to special monitoring from over 17,000 to just over 1,000. Nonetheless, the Special Rapporteur noted that while religious freedom had constitutional protection, in practice it was subject to “excessive regulations that prioritise security over freedom”.²⁰

The Uzbek authorities have taken other steps to improve human rights. In August, a law was approved to strengthen the Human Rights Ombudsman. The Ombudsman gained new powers to intervene on behalf of citizens and to inspect prisons. Dialogue between the Uzbek authorities and international organisations which monitor human rights was revived. A steady stream of prisoners, who it was believed were being held for political reasons, were released. As of April 2018, 26 out of the 34 “most prominent political prisoners” identified in a resolution of the European Parliament in October 2014 had been released.

International bodies and organisations have also repeatedly raised concerns about the use of child and forced labour in the cotton harvest leading to prohibitions on the import of Uzbek cotton by some western countries. In 2014, the Uzbek Government signed an agreement with the ILO which led to a programme of third party monitoring of child and forced labour in the 2015 cotton harvest. At the end of 2016, the ILO reported that the systematic use of child labour had been eliminated and described a series of measures taken by the authorities to eliminate forced labour. As a result, in December, the European Parliament lifted its prohibition on the import of Uzbek textiles that had been in force since 2011.²¹ But some international organisations working in the field of human rights continued to be highly critical of Uzbekistan’s record.

18. EU Annual Report on Human Rights and Democracy in the World in 2016, October 2017, p 94-6.

19. Opening Remarks by UN High Commissioner for Human Rights Zeid Ra’ad Al Hussein at a Press Conference during his Mission to Uzbekistan, May 2017.

20. Preliminary findings of the Country Visit to the Republic of Uzbekistan by the Special Rapporteur on freedom of religion or belief, UN OHCHR website, October 2017.

21. Third Party Monitoring of the Use of Child and Forced Labour during the 2015 Cotton Harvest in Uzbekistan, ILO, 2015; Third Party Monitoring of the Use of Child and Forced Labour during the 2016 Cotton Harvest in Uzbekistan, ILO, 2017; EU Annual Report on Human Rights and Democracy in the World in 2016, October 2017, p 94-6.

Annex 1 – Political Assessment in the Context of Article 1

In 2017, the Uzbek Government re-doubled its efforts to eliminate forced labour. In August, the Government prohibited the mobilisation of students and state employees (including public health and education employees) to work in the cotton harvest and, when it became clear that the prohibition had not been fully observed, those employees who had been mobilised for the harvest were returned from the fields. The ILO Report into the 2017 harvest concluded that, “there is clear political commitment at central level to completely end the use of forced labour. In 2017, this commitment has been expressed at the highest political level and concrete measures are being implemented.”²²

A lasting resolution of this issue will require a comprehensive restructuring of the cotton industry, a reduction in the area sown to cotton, the introduction of commercial cotton farming and increased mechanisation. In some respects, such as reducing the area sown to cotton, the Uzbek authorities have been taking action for some time. In 2017, they accelerated and expanded their efforts. The rates paid to cotton pickers were greatly increased, in some cases doubled, commercial cotton production was permitted in some cases and there was greater investment in machinery.

Political inclusiveness for women, ethnic and other minorities

The Uzbek Constitution, in Article 18, sets out the legal basis on which citizens can enjoy equal rights and equality before the law without regard to gender. Uzbekistan is a state party to the Committee on the Elimination of Discrimination against Women (CEDAW). However, in practice, women are severely under-represented in the higher levels of government and in parliament. The UN HCHR commented at the press conference at the end of his visit to Uzbekistan in May on the lack of women he had met in senior positions. The UN Human Rights Committee has made a series of recommendations on ways to enhance the role of women in Uzbekistan.²³ The Development Strategy calls for measures to “improve the socio-political activity of women” but there has not been any clear progress in this area so far.

Article 18 also guarantees equal rights for ethnic, religious and other groups. Article 4 guarantees a respectful attitude to the languages, customs and traditions of the nations and peoples residing on the territory of Uzbekistan and the creation of the conditions for them to develop. The Constitution formally grants the Republic of Karakalpakstan, where the Karakalpak ethnic group living in Uzbekistan mostly lives, sovereignty and the right to secede from Uzbekistan.

Freedom from harassment, intimidation and torture

The Uzbek Constitution sets out the legal basis on which citizens can be protected against torture. Article 26 states that “no one can be subject to torture, violence or other behaviour which is cruel or humiliates human dignity”. This prohibition is reinforced by the Criminal Code. Uzbekistan is a signatory of the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

However, international bodies responsible for monitoring and promoting human rights have raised concerns about the widespread abuse of detainees and convicted prisoners.²⁴ In 2017, the Uzbek Government acknowledged there was a problem and began to tackle it. At the end of November 2017, the President issued a decree banning the use of evidence acquired as a result of the application of torture during the carrying out of the investigation. The terms of the decree also required prosecutors to ensure that evidence had not been obtained as a result of physical or psychological pressure on the accused or his/her relatives. A law came into effect in April 2018 which gave a clear and expanded definition of torture, set out an expanded list of those who could be held responsible for abuses and increased the penalties for convictions for applying torture.

22. Third Party Monitoring of the Use of Child and Forced Labour during the 2017 Cotton Harvest in Uzbekistan, ILO, 2018.

23. UN Human Rights Committee. Concluding observations on the fourth periodic report of Uzbekistan, 2017, paras 13-14.

24. UN Human Rights Committee. Concluding observations on the fourth periodic report of Uzbekistan, 2015, paras 13-14.