

# Policy Brief: Green Recovery and the Transition to Green Economy in Uzbekistan

## Executive Summary

**The COVID-19 pandemic has significantly slowed or contracted economic growth for most countries and halted, or in some cases significantly reversed, progress on the 2030 Agenda for Sustainable Development.** For Uzbekistan, GDP growth in 2020 was all but erased and poverty levels increased for the first time in two decades. This paper, developed by the United Nations Development Programme, presents a framework for COVID-19 recovery by “building forward better,” towards the development of a “green economy.” It provides an overview of green recovery and economy principles and key sectors which have the potential for ‘greening’ - including energy, agriculture, industry, waste, water resources, urban development (with a focus on housing and construction), transport and finance - and suggests a set of priority directions and policy measures for discussion.

**The Government of the Republic of Uzbekistan has been taking important steps to remediate the effects of COVID-19 on the economy and public health.** Its investment decisions and actions over the next three to five years aim to define a long-term development trajectory which will build the resilience of the country to future threats, including climatic and non-climatic shocks. Adoption of the “*Strategy for the transition of the Republic of Uzbekistan to a Green Economy in the period of 2019-2030*” recognized green economy as a key strategic area for long-term sustainable development and identified priority areas for 'greening'.

**While the country’s 2017-2021 Action Strategy sets out a clear vision for Uzbekistan’s development, including specific sectoral plans in energy, industry, and agriculture, much more is needed to achieve ‘greening’ of these sectors.** In concert with the Government’s green economy strategy, the United Nation’s Common Country Analysis emphasizes that Uzbekistan’s increasing population, urbanization, and rural-urban inequality require sustainable use of nature and limiting of climate impacts, de-coupling growth from carbon emissions and unsustainable consumption and production patterns. In particular, with the growth of manufacturing, and as Uzbekistan’s urbanization rate rises, risk-informed investments for clean, efficient, inclusive and resilient industries need to be pursued. More investment is also needed in sustainable agriculture and use of water resources for the poorest part of the population who live in arid regions, depend on subsistence agriculture and are highly vulnerable to climate change and water scarcity. Several other recent analyses have focused on energy, industry, urban development, construction and housing, waste management, water resources, and agriculture, including the United Nations Economic Commission for Europe’s recent 3<sup>rd</sup> *Environmental Performance Review - Uzbekistan*<sup>1</sup> as well as the *Mainstreaming, Acceleration and Policy Support Report*<sup>2</sup> of 2018.

**Utilizing the available analysis, and supported by the global call for “building forward better” and mobilization by development partners of substantial fiscal stimulus for the post-COVID19 Green Recovery, the Government’s robust implementation of the National Green Economy Strategy can put Uzbekistan at the forefront of best practice.** It will offer sustainable growth and job creation driven by innovation. It will offer improved human health and livelihoods with greater equity. It will also offer a window for the many foreign investors and donor organizations eager to explore new sustainable investments in multiple sectors of Uzbekistan society and economy.

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<sup>1</sup> <https://unece.org/environment-policy/publications/3rd-environmental-performance-review-uzbekistan>

<sup>2</sup> <https://uzbekistan.un.org/en/46176-mainstreaming-acceleration-and-policy-support-maps-achieving-sustainable-development-goals>

## Towards a Green Economy

There is no unique definition of the green economy, however there is a common understanding about what it means — an economy that improves human well-being and social equity, while significantly reducing environmental risks and ecological scarcities, and aims for sustainable development without degrading the environment. Unlike the traditional economy, which focuses primarily on expanding “output,” i.e., gross domestic product (GDP) or gross national income (GNI), the green economy promotes a triple bottom line of sustaining and advancing economic, environmental and social well-being. A green economy can also serve as a powerful vehicle to achieving the Sustainable Development Goals (SDGs<sup>3</sup>); because of the transversal nature of the SDGs<sup>4</sup> green economy measures can be found in targets across many goals, as illustrated below.

### Contribution of the Green Economy to achievement of the Sustainable Development Goals



Contribution of the Green Economy to achievement of the SDGs.<sup>4</sup>

The pathway to sustainable and climate-smart economic growth, meeting the SDG targets, and achieving a green economy will be aided by what the World Bank has called, Uzbekistan’s unique development momentum. The Government’s vision<sup>5</sup> to transform Uzbekistan into an industrialized, upper-middle-income country by 2030 enjoys popular support, and difficult reforms on price liberalization, land ownership and

<sup>3</sup> The Rio+20 outcome document ‘The Future We Want’ states: “56. [...] we consider green economy in the context of sustainable development and poverty eradication as one of the important tools available for achieving sustainable development and that it could provide options for policymaking but should not be a rigid set of rules. We emphasize that it should contribute to eradicating poverty as well as sustained economic growth, enhancing social inclusion, improving human welfare and creating opportunities for employment and decent work for all, while maintaining the healthy functioning of the Earth’s ecosystems.” (Source: <https://sustainabledevelopment.un.org/futurewewant.html>)

<sup>4</sup> UNDP, 2019. Green economy and green jobs: Challenges and opportunities. (Source: <http://bit.ly/3k8BRWH>)

<sup>5</sup> President Shavkat Mirziyoyev’s Address to the Oliy Majlis on December 29, 2020 (<https://president.uz/en/lists/view/4057>)

agriculture have been proposed with some already in place. The predominantly inward-looking economic model applied until recently has been jettisoned and new policies are encouraging the integration of private businesses into global and regional value chains. A trend of poverty reduction reflects robust pre-COVID19 GDP growth, rising incomes of micro and small businesses, regular minimum wage increases, remittance inflows and the Government's targeted safety net programs. On human capital, the country is positioned to reap a demographic dividend from its large young population by offering productive employment opportunities, encouraging economic initiative and innovation, and strengthening future work capabilities and digital skills. Not least, the country is blessed with natural capital, especially land and abundant sunshine.

**For Uzbekistan, the pandemic particularly underscores the conviction that the path to achieving its National Green Economy Strategy objectives is through a planned green recovery.** To get on that path, the Government's support for businesses and households needs to aim not only to restart the economy, but to transform it. Initiatives could include direct investments in environmentally friendly solutions in addition to incentivizing private investments in low-carbon technologies. For the energy sector, this would be a less costly path than supporting fossil fuel infrastructure (40 percent of which is at the end of its life) that might be '*stranded*<sup>6</sup>' as the cost of renewables continues to drop and as importers of carbon-based energy undertake their own transition. Such spending would also make it possible to meet the country's Paris climate commitment and implement its Nationally Determined Contributions (NDC).

**Much of what has been proposed as "green" across the various national and sector plans in the way of policy, regulatory and fiscal measures needs implementing.** Elsewhere, efforts are still fledgling, and many needed actions have yet to be agreed. Further integration of sectoral policies is needed in order to harmonize budgeting, regulations and standards, promote efficiency and synergies as well as ensure implementation at all levels (suggestions for practical steps and deployment of cross-sectoral integration could be among the priority tasks of the National Interagency Green Economy Council proposed in the paper and summarized below). Also critical are additional and stronger incentives for private and state actors to channel financial, technological, management and human resources to sustain natural resources and reduce pollution and carbon emissions. Importantly, industry will need to be encouraged to adopt genuine corporate and social responsibility and environmental, social, governance principles and practices.

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<sup>6</sup> Assets that at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return (i.e. meet the company's IRR), as a result of changes associated with the transition to a low-carbon economy because of lower than anticipated demand and/ or prices. (Source: <https://carbontracker.org/terms/stranded-assets/>)

## Summary of Key Sectoral Challenges and Opportunities.

**Energy.** Inefficient energy use costs at least 4.5% of the GDP annually, with electricity generation, heating supply and buildings being important sources of energy loss. Almost 40 % of Uzbekistan’s available generation capacity is past its service life leading to power outages. In the absence of policies to encourage energy efficiency and decarbonization, Uzbekistan by 2030 will find itself facing sharp reductions in oil and gas production (and exports) and increasingly reliant on coal. Research shows that potential of renewable energy sources in Uzbekistan is 270 million tons of reference fuel, which is more than three times the annual need for energy resources, and most of this potential is in solar energy. Solar electricity costs have fallen 80% worldwide in 10 years, and are even more favorable in Uzbekistan, which enjoys plenty of sunshine.

**Industry.** The industrial sector, dominated by chemical manufacturing and mining, uses almost a quarter of total energy use in the country, and almost all of it natural gas. The sector is challenged not only to cut emissions and become less polluting, but also to respond to the rapidly reshaping of global production systems which require cleaner production processes, innovation and a talented labor pool to remain competitive. A Presidential decree goes some way to support an industrial policy, calling for “the formation and implementation of a tax and tariff policy that encourages the reorientation of the economy from the export of raw materials to the production of high-quality products and deep processing,” and more is needed.

**Urban Development.** Quality urban environments - which incorporate energy efficiency, waste management, improvement of public transit, green infrastructure, and walkable green public spaces - are integral to a city’s economic success because they contribute to competitiveness and attract and facilitate economic activity. To create quality environments, city and national planning need to be integrated in order to harmonize policies and regulations (including national climate mitigation and adaptation plans) and facilitate connectivity between cities, especially in areas like transport, waste disposal and ICT.

**Water Resources.** Uzbekistan is among the 25 countries most exposed to water stress, and water scarcity will be exacerbated by climate change. Inefficient water use and poor on-farm agricultural practices are causing low productivity and severe land degradation through soil salinization, forcing land out of production and contributing to toxic dust storms in the Aral Sea basin. While overall 73% of population has access to clean drinking water, there are significant spatial discrepancies in access to water and sanitation. Wastewater management is heavily underdeveloped and needs substantial financing. Centralized sewerage system penetration covers only 15.6% of the population against the Government target of 31.4% by 2030. The wastewater treatment efficiency rate is also low at 55%, as infrastructure is old and needs replacement.

**Agriculture.** Uzbekistan’s agriculture sector is the second biggest emitter of GHGs and the largest user of water. More than three-quarters of pasture land has been degraded,<sup>16</sup> and productivity on good land has dropped by half in last 20 years, with yields of fodder declining by an average of 2% per ha per year. ‘Greening’ agriculture, coupled with agricultural sector liberalization launched after 2016, has the potential to significantly increase productivity, employment and income, and cut water use. Agriculture employs more people than industry and trade sectors together. The recently adopted agricultural strategy for Uzbekistan has an implicit jobs agenda. What is needed is a “roadmap” for realizing job potential in the sector while ‘greening’ it.

## Priority Areas for Discussion and Action

**As a foundation for considering the specific, short- and longer-term sectoral recommendations made in this paper, it is advisable to put in place a set of actions and policy measures which address a broader set of principles and institutional, financial and human capacities for implementation.** Among them could be the following:

1. ***Screen all elements of stimulus packages for their longer terms implications across the key dimensions of long-term growth and equitable livelihood potential, resilience to future shocks, and decarbonization and sustainable growth trajectory.*** Priority actions should create jobs and reduce inequality. They should be actions that can be implemented quickly, including “shovel-ready” targets for public investment, with a focus on non-emissions-intensive infrastructure projects, and existing policy frameworks that can be rapidly scaled up. At the same time, they should favor cross-sectoral, cross-government approaches that take a long-term, systemic approach to growth and sustainability rather than focus on single technological outcomes. Policy makers could also avoid relaxing existing environmental regulations to provide near-term relief, as the costs of longer-term vulnerability will often outweigh short-term economic relief.

2. ***Increase ambition of long-term environmental objectives (including net-zero GHG emissions, NDC obligations) and ensure that policies and investments triggered through stimulus packages are aligned with those outcomes.*** The National Climate Strategy and revised NDCs, that are currently developed by the Center of Hydrometeorological Services, are expected to include measurable targets and an implementation plan for the reduction of carbon intensity. A strengthening of the linkages between the National Green Economy Strategy and the National Climate Strategy is needed. In particular, the revised NDC targets could serve as one of the primary quantitative goals for achievement under the National Green Economy Strategy.
3. ***Provide specific support for reskilling and training*** for industries affected by the immediate crisis and longer-term decarbonization, along with supportive policies such as reforming housing policies to encourage mobility. The requirement of introducing energy-efficient solutions in the government-backed affordable housing programs needs to be expanded to the wider construction industry across all the segments, including residential, commercial and industrial facilities. Specialists of the relevant government agencies primarily responsible for the construction sector, and construction and engineering firms will need to be trained in green construction technologies, products and services. Capacity building is also needed for key personnel of the transport authorities and the municipalities formulating policies regarding public and automobile freight transport.
4. **A green industrial strategy might be considered, making subsidies and other government support for specific industries conditional on both environmental improvements (including GHGs emissions) and better overall resilience (including for the workforce).** This might include transition energy pricing to reflect full costs of energy provision and internalized externalities, and developing social protection measures to mitigate potential negative effects on vulnerable groups. Fossil-fuel subsidies need to be phased out, and consideration should be given to introducing carbon pricing that includes social protections (e.g. using carbon pricing revenue to mitigate distributional implications for households, as well as to finance support for structural adjustment of workers and communities).
5. ***Actively support development of green finance flows to improve resilience, encouraging longer-term horizon for financial decisions.*** There is a need to promote robust and transparent definitions, standards and taxonomies for green finance to guide financial allocations and investments. There is also a need to increase and improve capacities to assess, manage and publicly disclose climate change-related financial risks. As “green criteria” are soon to be introduced for publicly-funded investment projects, the same approach needs to be applied for private investments, offering private actors an enabling business environment, including friendly legal and institutional support, and lucrative commercial opportunities. Finally, the potential for public finance to catalyze private investment needs to be enhanced by further empowering public finance institutions, including by increasing their lending authority and ability to co-invest.
6. ***Provide incentives for producers, importers and exporters of green products and services, which may include measures such as preferential tax treatment, loan interest rate subsidies, or reduced VAT.*** Low import duties on equipment and goods that are not produced or produced in small scales in Uzbekistan may accelerate the transformation of production capacities and the process of providing green solutions. At the same time, selectively increasing import duties in parallel with other policy measures could incentivize domestic industries producing energy-efficient goods in sufficient amounts and with good quality. The Government could also further expand the practice of “local content requirements” for major foreign direct investments or projects that involve significant import of goods and services. Finally, banning the import of environmentally dangerous equipment and goods is an effective measure to fight against excessive emissions and motivate industries to adapt to new, sustainable ways of doing business.
7. ***Make greater efforts to reduce environmentally harmful subsidies.*** Fuels in Uzbekistan used by energy and other industries are highly subsidized and at the same time pollution charges are low and do not

effectively incentivize industry to introduce carbon-neutral technologies. Replacing subsidies for fuel use with direct cash transfers to low-income households would better target poverty while providing an incentive to limit energy consumption. This would require improving the tax/transfer system. Agricultural subsidies have declined as a percentage of gross farm receipts over the past decade. However, support remains largely tied to agricultural production. This encourages overuse of land, water, fertilizers, and pesticides. Furthermore, environmental criteria are not sufficiently integrated in agricultural support programmes.

8. ***More systematically tie Investment decisions for infrastructure to effectively integrating environmental or climate mitigation and adaptation criteria, with a particular focus on mining, chemicals, manufacturing (cement), urban development, housing and construction and waste management.*** Increased use of charges and mechanisms could mobilize the private sector to finance investment in infrastructure and service provision, as well as to engage the financial sector in promoting green investment. There is also a need to improve control, efficiency, transparency, and integrity of procurement processes related to infrastructure projects, and to streamline administrative procedures for granting environmental permits. Modernization of production and facilities could be encouraged by increasing pollution charges, gradually at first, starting with the largest polluters.
9. ***Along with strengthening environmental regulations and their enforcement, enhance the use of pricing instruments, extend green procurement and eco-labelling programmes in order to stimulate the demand for environmental technology, and improve the information base about the market and job opportunities around sustainability.*** Innovation policies in emerging market economies like Uzbekistan have given progressively more emphasis to environmental technology, although often in an inconsistent manner. Environmental goods and services markets are growing in the country thanks to better environmental regulations and increased infrastructure investment, but not robustly. Most such goods and services remain imported.
10. ***Ensure that environmental policies do not impose costs on the most vulnerable.*** Development projects in sectors such as mining and energy have degraded land, water and air that are essential to the health and livelihoods of rural communities, sometimes resulting in conflict. Systematic environmental and social assessment of projects, better public participation in decision making and careful consideration of distributional impacts of policies are needed. The widespread international development co-operation enjoyed by Uzbekistan can help leverage domestic resources to help address environmental and poverty alleviation objectives in an integrated way.
11. ***Build human and institutional capacity for effective implementation.*** Ministerial and other coordinating bodies relating to green growth are in place, but they need strengthening to break down silos across institutions and policies, and improve oversight and monitoring.<sup>7</sup> Responsibilities for delivering results need to be more clearly identified, and there could be stronger mechanisms in place to hold those with responsibilities accountable for delivering results. Civil society institutions, especially environment NGOs could also play important roles in developing proposals, monitoring project progress, and serving as whistleblowers. The Government could strengthen their capabilities through increasing grant support and financing trainings.
12. ***Full support to the National Interagency Council in coordinating, financing and implementing the National Green Economy Strategy.*** The UNDP stands ready to work with the *National Interagency*

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<sup>7</sup> In consultation with the Government, UNDP will conduct skills assessment of relevant ministries, public agencies and private companies to identify capacity needs and skills gaps in the areas related to the National Green Economy Strategy. Based on skills assessment results and consultations with the Government, UNDP could facilitate mobilization of funds, design and establish an intensive professional development program(s) for executives and practitioners in the fields related to the green economy. The professional development program could be fee based to ensure sustainability, while UNDP will design and implement a competitive scholarship program to fund local talents and motivated professionals during each application season. The scholarship recipients will be required to develop feasible project proposals addressing Uzbekistan's green economy challenges and needs, and will be provided with incentives and support to implement their proposals after graduation.

*Green Economy Council (IGEC)* and provide advisory and coordinating support, along with targeted long-term technical assistance; assist with expansion of the IGEC's functions and membership, mobilization of financial resources from donors and investors, strengthening capacity of member agencies and relevant stakeholders, and ensuring full alignment between the National Climate Strategy and the National Green Economy Strategy. To facilitate operationalization, financing and implementation of the National Green Economy Strategy in the period of 2021-2030, UNDP is ready to commit financial and technical resources to development of a detailed roadmap and investment strategy for transition towards a green economy under the leadership of the Government of Uzbekistan and in coordination with key stakeholders from the public and private sectors, international development agencies and donors / foreign investors.