INTERNATIONAL MONETARY FUND

Uzbekistan and Public - Private Partnerships: Country Lessons

Lawrence Dwight

SIP/2025/087

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on May 30, 2025. This paper is also published separately as IMF Country Report No 25/144.

2025
JUN

SELECTED ISSUES PAPER

 SIP/2025/087

IMF Selected Issues Paper
Middle East and Central Asia Department

Uzbekistan and Public-Private Partnerships: Country Lessons, Republic of Uzbekistan
Prepared by Lawrence Dwight*

Authorized for distribution by Yasser Abdih
June 2025

***IMF Selected Issues Papers* are prepared by IMF staff as background documentation for periodic consultations with member countries.** It is based on the information available at the time it was completed on May 30, 2025. This paper is also published separately as IMF Country Report No 25/144.

ABSTRACT: Public-Private Partnerships (PPPs) utilize private sector expertise, risk sharing, management, and financing to improve public investment. However, these benefits also carry risks. Project level risks include poor selection, optimism bias, off-budget financing, and contract renegotiation. Countries can manage these risks by integrating PPPs into the public investment plan, testing assumptions via scenario analysis, and evaluating risks during the selection process. Macroeconomic risks can arise if PPPs perform poorly or accumulate too rapidly. These risks can be addressed by implementing an annual cap on new projects or a cap on the PPP stock. Having a robust system to monitor PPPs improves implementation and guards losses from contingent liabilities.

RECOMMENDED CITATION: Dwight, Lawrence. 2025. "Republic of Uzbekistan and Public-Private Partnerships: Country Lessons." IMF Selected Issues Paper (SIP/2025/087), International Monetary Fund. Washington, DC.

JEL Classification Numbers:	H11, H54, H81, L32, L33
Keywords:	National Subsidies, Public Enterprise Governance, Public Enterprise Performance, Public Infrastructure, Public Investment, Public Private, Public-Private Partnerships, Public vs Private, Scope of Government
Author's E-Mail Address:	ldwight@imf.org

SELECTED ISSUES PAPERS

Uzbekistan and Public – Private Partnerships: Country Lessons

Republic of Uzbekistan

Prepared by Lawrence Dwight[1]

[1] "The author would like to thank staff of Uzbekistan's Ministry of Economics and Finance for providing data and useful feedback on this paper.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

SELECTED ISSUES

May 30, 2025

Approved By
Middle East and Central Asia Department

Prepared By Lawrence Dwight

CONTENTS

UZBEKISTAN AND PUBLIC-PRIVATE PARTNERSHIPS: COUNTRY LESSONS

Public-Private Partnerships (PPPs) can take advantage of private sector expertise, better risk sharing, improved management efficiency, and private financing to improve public investment projects. However, international experience shows that these benefits are accompanied by risks at both the project and macroeconomic levels. At the project level, risks can include poor project selection, optimism bias, off-budget financing, and renegotiation. Practices that manage these risks include integrating PPP projects into the public investment management system, conducting scenario analysis to stress key assumptions, evaluating costs and risks of PPP projects during the selection process, and creating a framework that minimizes renegotiation of PPP contracts. At the macroeconomic level, explicit and implicit guarantees can create risks if PPP projects perform poorly or accumulate too rapidly. One way countries can avoid and mitigate macroeconomic risks is by implementing an annual cap on new PPP projects and/or a cap on the stock of PPP projects. Having in place a robust system to monitor PPPs also helps ensure their effective implementation and guard against the realization of contingent liabilities.

A. Introduction

1. **Uzbekistan has only recently begun to use Public-Private Partnerships (PPPs) to finance and operate investment projects, but they have grown rapidly.** The value of signed contracts reached 27 percent of GDP, and the authorities estimate that direct and contingent liabilities reached 15 percent of GDP at end-2024. The government also plans to implement significant new PPP projects over the next few years.

2. **While PPPs can help harness the benefits of private sector knowledge and efficiency, international experience also shows that they can create significant risks.** It is therefore important to properly identify and manage these risks to have successful PPPs. This paper discusses key features of PPPs, describes Uzbekistan's framework for PPPs, and their growth in Uzbekistan. The paper also examines some challenges that arise when implementing PPPs, examples from other countries that may be relevant for Uzbekistan, and methods to deal with these challenges to inform current efforts of the authorities to better identify and manage fiscal risks from PPPs.

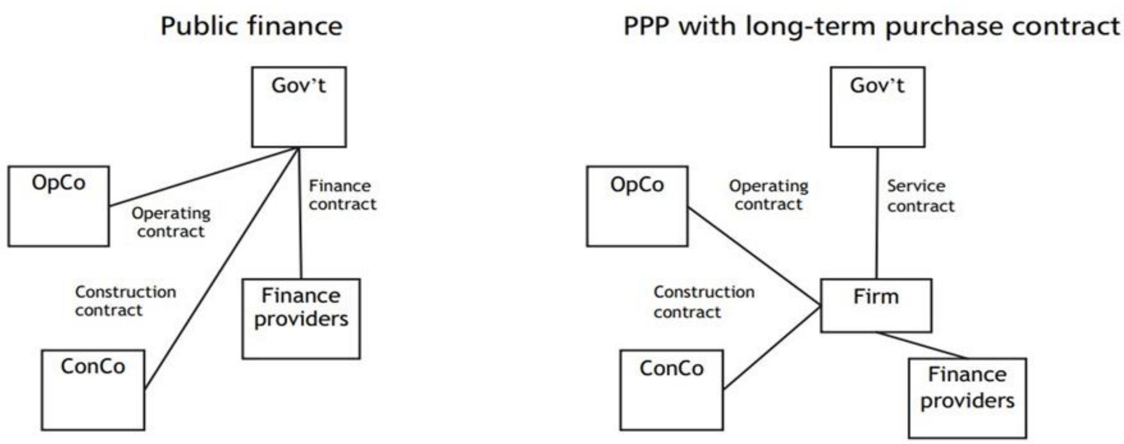
B. The Nature of Public-Private Partnerships

3. **In contrast with the traditional approach where the government handles all stages of a project, under the PPP approach the public and private sectors cooperate to invest and provide services.** Some differences between the public and PPP approaches include:

- **Public:** Under the traditional approach, the government carries out all stages of a project, including obtaining financing, building infrastructure, and operating the project. While a private entity may be contracted to build the infrastructure, the government manages and operates the project over the long term. Funding is provided from budget revenues or borrowing.

- **PPPs**: Under this approach, the government partners with a private entity to finance and manage a project, sharing risks and rewards. The government and private partner usually set up a firm or special purpose vehicle. The PPP firm may bring or attract financing, build the infrastructure, and operate the project (Figure 1). The firm takes advantage of the expertise, financing, and operational efficiencies of the private partner. The PPP receives income from users (e.g., a toll road) or from the government (e.g., an electricity project where the government is the main purchaser).[1] PPPs generally involve long-term contracts (e.g., 25 years). The private partner may or may not have an obligation to transfer ownership to the government at a future date.[2] PPPs have become a popular approach to investment and have been used to build and operate hospitals, schools, prisons, transportation infrastructure, and energy projects, among others.

Figure 1. Structure of Public Investment vs PPPs



Source: Polackova Brixi et al. (2005). "Managing Fiscal Risks in Public-Private Partnerships," p. 142

Benefits of Public-Private Partnerships

4. PPPs have several potential benefits, including by bringing private sector expertise, risk sharing, management efficiency, and additional financing.

- **PPPs can take advantage of private sector expertise**. This can be at the design phase and other phases, for example in providing services, potentially resulting in higher operating efficiency.

- **PPPs share project risks between the public and private sectors**. With public investment the government bears most of the risk (although some risk can be borne by the contractor, e.g., through performance provisions). In principle, the party that has an advantage in dealing with a risk should manage it. Examples include design, input costs, maintenance, and operation.

---

[1] Fouad, M et al. (2021). *Mastering the Risky Business of Public-Private Partnerships*, p. 10.

[2] Akitoby. et al (2007). *Public Investment and Public-Private Partnerships. International Monetary Fund*, p. 8.

- **PPPs may be attractive because they involve lower near-term financing requirements**. Examples include initial financing for a project, the transfer of land, expenditures on resettlement, the cost of providing infrastructure to the project site, required payments for the goods and services of the PPP, or subsidies.

Drawbacks of Public-Private Partnerships[3]

- **PPPs tend to be more complex than traditional public investment projects**. They involve many stakeholders, entail complex project arrangements, and have special rules or government benefits creating specific costs and risks (Table 1).

- **PPPs can make the consequences of a poor legal framework, project selection, or management worse.** Lack of an adequate legal framework or processes for appraisal, selection, and implementation can result in legal uncertainties and/or inefficient management.

- **PPPs can undermine budget processes.** If PPPs do not require current expenditures from the budget, they can bypass budget controls and seem less expensive than traditional public investment.

- **PPP exacerbate the costs of insufficient competition**: Lack of competition allows the private partner to charge higher than market prices which is more problematic for projects that involve natural or regulatory monopolies.

- **PPPs are not well suited for social infrastructure projects**. Therefore, PPPs work better for projects that have a clear income stream such as infrastructure projects (e.g., toll roads, power generation), compared to projects that do not, such as social infrastructure (e.g., schools). Projects that do not generate a high enough financial return—such as those providing social benefits—may not be attractive to private sector partners or may generate future fiscal liabilities.

- **PPPs can create fiscal illusion.** Governments may be tempted to use PPPs to relax near term budget constraints rather than to improve efficiency. Since PPPs typically involve lower payments in the near term as the private partner brings financing, they may give the impression that costs are lower when they may be more than compensated by considerably higher future costs. Under traditional public investment projects, risks tend to materialize relatively early during the construction phase of a project. Under PPPs, risks tend to materialize later when the PPP is in operation.

[3] This section gives a short overview of PPP risks discussed in the literature. Section C covers specific risks of relevance to Uzbekistan, with examples of the experiences of other countries and possible solutions.

Table 1. Uzbekistan: Common Fiscal Costs and Fiscal Risks from PPPs

	Fiscal Costs	Fiscal Risks
Explicit	• Start up financing • Costs of land, resettlement, need infrastructure before the PPP begins • Payments under Purchase Power Agreements • Operational subsidies	• Explicit guarantees (e.g., financing, revenues, power purchase prices, exchange rate) • Early contract termination clauses • Asset condition at contract termination • Legal disputes
Implicit		• Implicit guarantees: Even without explicit guarantees, the government may need step in to support projects that are not profitable or insolvent.

Source: Adapted from IMF (2021), *Mastering the Risky Business of Public-Private Partnerships in Infrastructure*, Fiscal Affairs Department (FAD) Paper, No. 21/10.

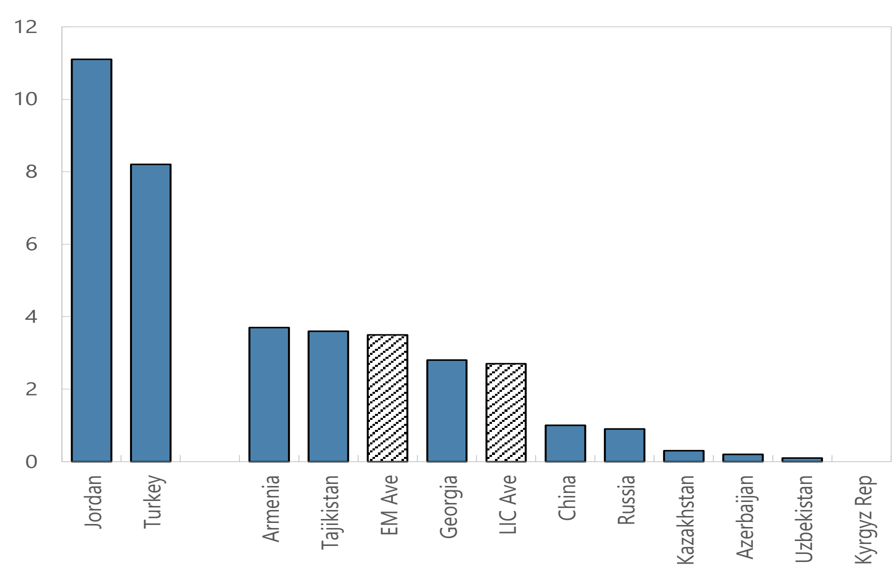
C. Uzbekistan's Experience with PPPs

Size, Sectors, and Pipeline

5. Uzbekistan's stock of PPP projects was initially low relative to other emerging and developing countries but has grown rapidly in recent years (Figures 2 and 3).

- The first PPP projects began in 2018, before the Law on PPPs was enacted.
- By the end of 2019, Uzbekistan had several PPP projects, but they did not comprise a major share of GDP.

Figure 2. Selected Countries: Stock of PPPs in 2019
(Percent of GDP)



Source: World Bank Global Infrastructure Database

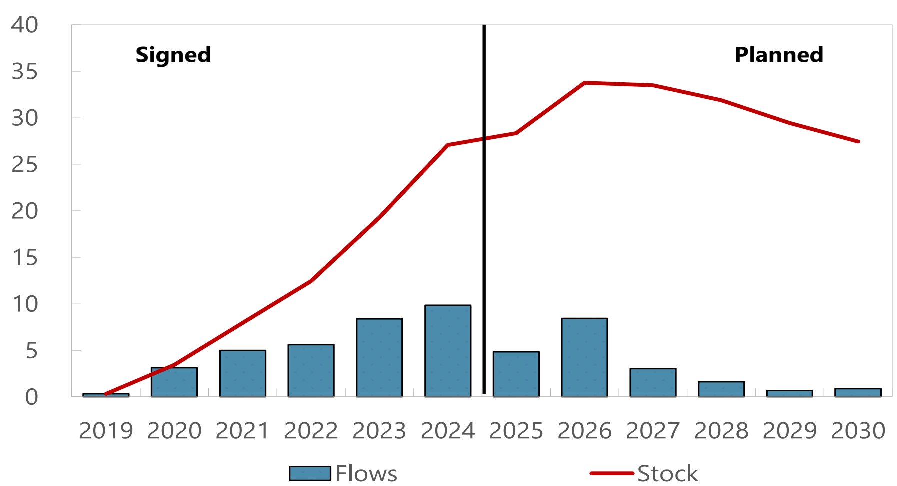
- By end-2021, Uzbekistan had more than 200 PPP projects with a total value of USD 6.2 billion (about 8 percent of GDP). These projects were concentrated almost entirely in the energy sector. The pipeline of projects had also expanded. Nine projects worth USD 1.7 billion were close to signing and 15 projects worth USD 2.2 billion were at the tender stage.
- In 2024, the government signed agreements with a total value of USD 11 billion (10 percent of GDP). And at the end of the year, the value of Uzbekistan's PPPs stood at USD 31 billion (27 percent of GDP). The government estimated that direct and contingent liabilities of PPPs stood at 15 percent of GDP.
- Regarding composition by sector, during 2019-2024 more than 90 percent of the value of these projects was in the energy sector (Table 2 and Figure 4). Information on individual PPP projects can be found on Uzbekistan's Register of PPP Projects website.

Table 2. Uzbekistan: Value and Share of PPP Projects, December 2024
(Percent of GDP)

Sector	USD Mln	Percent of Total
Energy	28,878	93%
Utilities	1,500	5%
Education	144	0.8%
Ecology	116	0.4%
Social	103	0.4%
Other	276	0.9%
Total	**31,118**	**100%**

Source: Ministry of Economy and Finance and IMF staff calculations

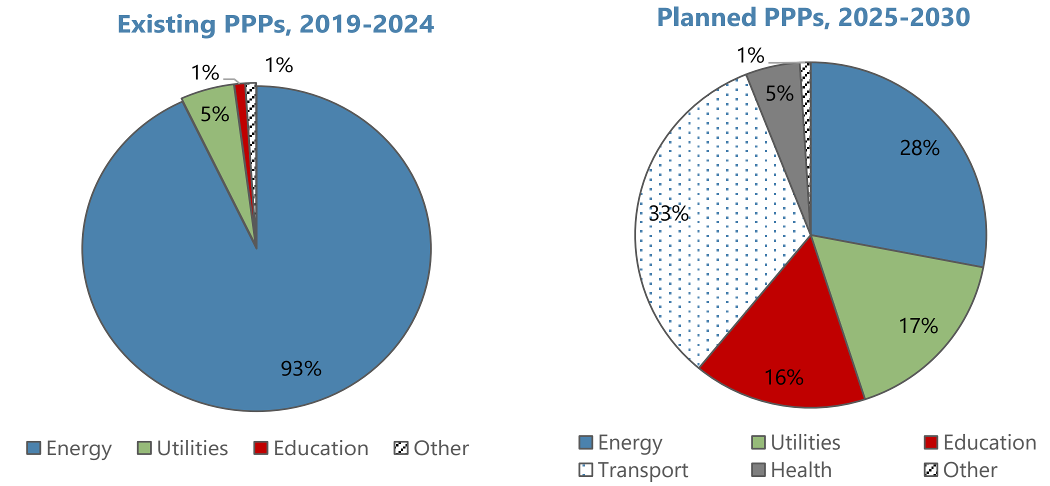
Figure 3. Historical and Planned PPPs, 2019-2030
(Percent of GDP)



Source: Authorities' data and IMF staff calculations, as of April 2025.

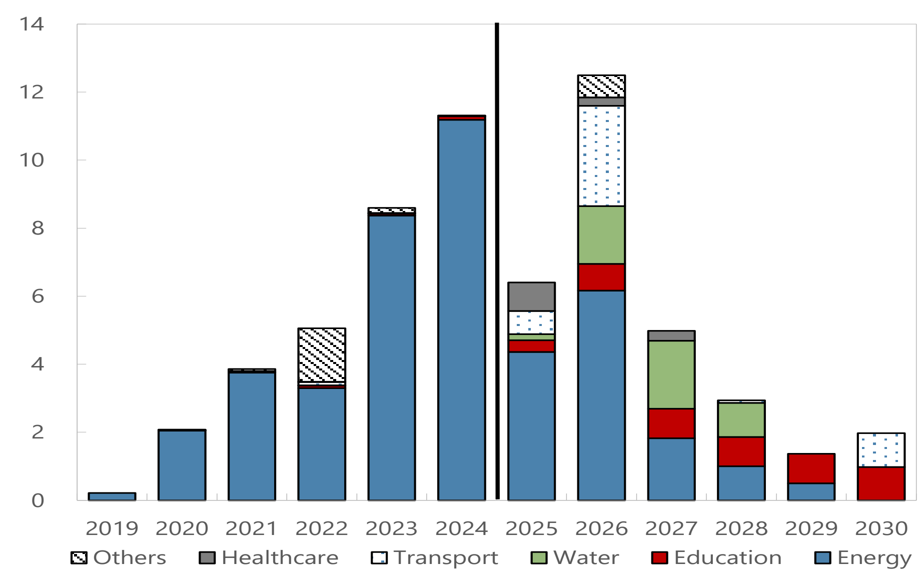
- Looking forward, Presidential Decree 308 presented a list of PPP projects to be completed during 2025-2030 amounting to USD 30.2 billion (Figure 3). If fully executed, the stock of PPPs would rise to 34 percent of GDP at end-2026, before falling to 27.5 percent of GDP in 2030.

Figure 4. Shares of PPPs by Sector
(Percent of Total)



Source: Authorities' data and IMF staff estimates.

Figure 5. Planned Flow of PPPs by Sector and Year of Signing, 2019-2030
(USD billions)



Source: Authorities' data and IMF staff estimates.
Note: Implementation of PPP projects may differ from the plans.

- In the future, it is planned that PPPs will be divided more equally across energy, utilities, education, and transportation, with transportation taking the largest share (Figures 4 and 5). Key projects include the Tashkent-Samarkand and Tashkent-Andijan toll roads. Cabinet resolution 720 broadened the scope of PPP activities. It permits PPPs that produce goods and deliver services traditionally provided by state enterprises and allows PPPs that bring management expertise without private investment.

6. Uzbekistan's scale of PPP development is significantly larger than in other countries. For example, the World Bank reports that in 2023, Uzbekistan signed six PPP projects worth USD 1.6 billion. This comprised almost 40 percent of total commitments to low- and middle-income countries in Europe and Central Asia that year.[4]

Institutional Framework

7. Aside from the line ministries, there are three entities with institutional responsibilities for PPPs. [5]

- The ***Fiscal Risk Assessment Department*** (FRAD) of the Ministry of Economy and Finance collects and monitors data on government fiscal and contingent liabilities from PPPs. It calculates total fiscal liabilities from PPPs on an annual basis and proposes budget limits on PPP guarantees to the Cabinet of Ministers.
- The ***PPP Department*** of the Ministry of Economy and Finance maintains records of payments and guarantees for PPP agreements; assists in calculating fiscal obligations; and assesses the risks, quality, demand, and fiscal commitments of proposed PPPs. It also prepares recommendations and fiscal analysis for the FRAD, ensures projects above USD 10 million are submitted to the Cabinet for approval, and monitors the fiscal obligations in PPP agreements.
- The **Center for PPP Projects** engages with local and international experts, organizes training, and develops PPP initiatives, model agreements, models, and performance standards. It also designs measures to prevent corruption and conflicts of interest in PPP projects.

D. Risks from PPPs

Section A gave a short overview of some risks that can arise from PPPs. This section goes into greater depth on specific risks relevant for Uzbekistan, gives examples of what happened in other countries, and suggests possible solutions. PPP risks include both explicit and implicit risks (Figure 6).

8. Explicit risks include government guarantees, obligations to purchase the output of PPP projects, or supply inputs at fixed prices. Government guarantees are legal arrangements in which the government agrees to pay a debt or perform an obligation in the event of a default by the primary debtor or when other contractual conditions are met. Typical examples include minimum revenue or usage guarantees, subsidies to producers if tariffs fall below an agreed level, and transfers

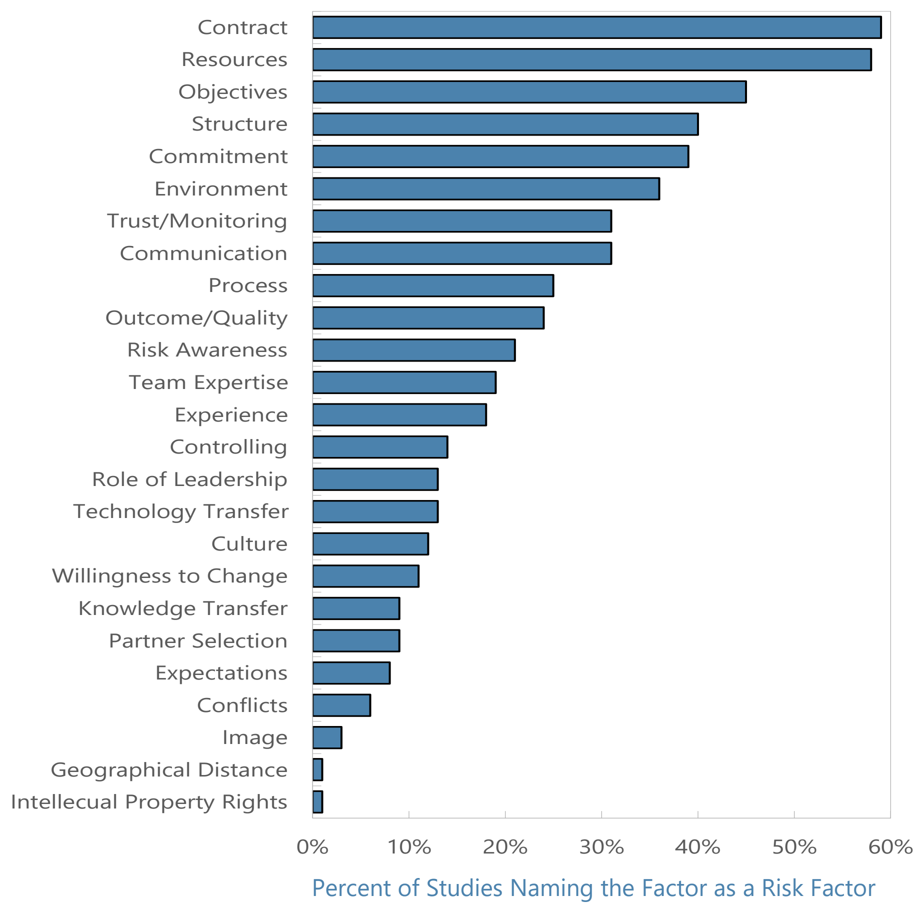
---

[4] World Bank (2023). *Private Participation in Infrastructure* (PPI), Annual Report, p. 11.

[5] Annex I lists key laws and resolutions that establish the legal framework for PPPs in Uzbekistan.

to cover operational losses, unexpected exchange rate changes, or higher input costs. In the case of a toll road, for instance, the government may provide a guarantee that the PPP will receive a minimum income. If user fees do not reach the minimum income level, the government pays the difference. While such guarantees, subsidies, or transfers may not involve immediate cash outflows or explicit on-balance sheet liabilities, they facilitate the PPP's access to cheaper credit. They are extended to support projects that are deemed to have large economic or social benefits, which would not be undertaken without the guarantees. The guarantees expose the government to uncertain future cash flows if a borrowing PPP goes bankrupt and the government must make payments under the guarantee. [6]

Figure 6. Potential Risk Factors in PPPs



Source: Rybnicek, R.; Plakolm, J; and Baumgartner, L (2020). "Risks in PPPs: A Systematic Literature Review of Risk Factors, Their Impact, and Risk Mitigation Strategies." *Public Performance & Management Review*. Volume 43, Issue 5.

Based on studies of PPPs in peer reviewed articles in 92 journals.

---

[6] Fouad, M et al (2021) *Mastering the Risky Business of Public-Private Partnerships*. Fiscal Affairs Departmental Paper No. 21/10, p. 23.

9. Implicit risks are not legal obligations but entail the expectation that the government will provide financial support if a project experiences difficulties or faces bankruptcy. From 1990 to 2018, the budgetary impact from the materialization of PPP contingent liabilities averaged about half of one percent of GDP in Middle East and North African Countries.

Project Selection

Risks

10. Lack of a rigorous selection process can result in less productive PPP projects being chosen. PPPs are not necessarily more efficient than other forms of investment. Thus, one source of risk is lack of a centralized process for selecting projects. If PPPs are not part of a centralized system of project selection that includes all investment projects, less productive PPPs may be approved. It could be the case that a PPP project replaces a public investment project with better economic or social returns. The selection process should also take account of potential financial costs that could arise. To do this, many countries institute gateway processes, i.e., PPP projects may not proceed without the approval of ministries that check technical feasibility and financial viability. Financial checks are normally the responsibility of the Ministry of Economy and Finance.

11. Acceptance of unsolicited PPP project proposals can also result in less productive PPPs being chosen. Unsolicited project proposals are a specific risk since the private partner has an incentive to initiate the project proposal. By contrast, public investment projects are usually initiated by the government. Acceptance of unsolicited proposals can allocate resources to projects supported by the private sector that do not align with the governments sector priorities. For example, the private sector may favor projects with good financial returns while the government may also be interested in projects that have good social returns. Moreover, direct negotiation of PPP projects can result in contract terms that are worse than those of competitive tenders.

Examples

- In **Mongolia**, PPPs were seen as a method to obtain financing for investment projects. As a result, they faced less scrutiny regarding their efficiency and fiscal impact. Due to these weaknesses, many PPP projects failed to deliver promised services, and the public began to lose confidence in them.

- In **South Africa**, the Treasury is required to approve PPPs at four stages of project development: (i) following the feasibility study, (ii) after preparing bid documents, (iii) while evaluating bids, and (iv) before the approval of contracts.

Solutions

12. The government could further integrate PPP projects into its public investment management system. Project selection is an issue for all government investment, not just PPPs. All public investments, including PPP projects, should be integrated into a unified public investment management system that screens and selects public investments. Selection of PPP projects should be based on clear objectives and criteria, including fiscal sustainability, ability to deliver services, capacity of providers, and availability of private sector financing. Having a government unit dedicated to evaluating PPPs helps maintain expertise and provides an institutional mechanism to improve the evaluation of PPP projects. In Uzbekistan, the Ministry of Economy and Finance should act as a gatekeeper, with the power to stop PPP projects at several stages of their preparation if proper steps have not been taken. These stages typically occur when the project feasibility study, tender documents, and final contract have been completed. To discourage unsolicited PPP proposals, the government could also consider forbidding or restricting direct negotiation of PPP projects. This approach has been implemented in several other countries.

Uzbekistan

13. Some PPP projects have gone through the formal selection process provided by the PPP Law while others have been signed under the Law on Investments and Investment Activities. Although the original PPP law was passed in 2019, many PPPs were signed under the Law on Investments and Investment Activities. The use of the Investment Law occurred because the original PPP law did not provide a sufficient framework for private sector borrowing. In addition, approval of PPPs under the Investment Law was easier as it did not require oversight or approval by the Ministry of Economy and Finance. Subsequently, a 2021 amendment to the PPP Law required the Ministry of Economy and Finance (MoEF) to approve projects that incur direct costs to the budget, create contingent liabilities, or create any direct or indirect costs borne by the budget. A 2022 Presidential Decree required that future PPPs be approved under the PPP Law and suspended the practice of direct negotiation of unsolicited proposals by the line ministries.

14. Currently, the level of approval of a PPP project depends upon its size.

- For PPPs whose value is less than USD 1 million, the government partner assesses fiscal risks and approves the project. The MoEF can set guidelines for limits on fiscal liability.
- For PPPs whose value is USD 1-10 million, the government partner submits the project concept and project evaluation document to the MoEF which reviews and either approves, rejects, or requests revisions. The government partner prepares tender documents and the draft PPP agreement for MoEF approval. The MoEF then reviews fiscal commitments and finalizes approval.
- For PPPs whose value is above USD 10 million, the government partner submits the concept and analysis of fiscal obligation of the PPP project to the Cabinet of Ministers for approval. The Cabinet reviews the PPP proposal and approves, rejects, or asks for revisions to the proposal.

Optimism Bias

Risks

15. Optimism bias entails overestimating the benefits or under estimating costs of a project. Optimism bias can occur in several areas including budgeting, asset recognition, and assessment of risks. Sources of optimism bias include overestimating demand and underestimating the cost of inputs or financing. The private partner may have an incentive to overestimate the profits to get financing and approval for the project. Similarly, the government sponsor may have an incentive to underestimate the possibility of needing to provide future financial support if the project is less profitable than expected.

Examples[7]

- In **Colombia** in the 1990s, the government guaranteed toll revenues and utility payments under long-term purchase power agreements (PPAs). Lower than expected demand resulted in the government paying $2 billion to private partners.

- In **Korea**, the government guaranteed 90 percent of revenues for 20 years on a toll road to the airport. When the road opened, traffic was only 50 percent of projected demand. As a result, the government paid several million US dollars per year over the course of the project.

- In **Mexico** in the early 1990s, the government contracted with private partners to build and operate 5,500 km of roads. Lower than expected traffic and higher than expected interest rates led the government to take over many of the private partners participating in the road PPPs. The Mexican government ultimately assumed $7.7 billion in debt.

- **Studies of PPPs around the world** have found consistent optimism bias.[8] One study found that actual costs for 258 transportation projects were on average 28 percent higher than planned. Another study, focusing on rail projects, found that actual demand was on average half as high as projected demand.

Solutions

16. To address optimism bias, demand forecasts should be stress tested via scenario analysis. For PPPs in which the government is the customer, demand forecasts should ensure the projects can produce the expected output. For projects that are supported by users, the government should employ conservative assumptions to assess project viability. Typical stress scenarios would estimate the impact of: (a) demand below projections, (b) a sizeable depreciation of the exchange rate, (c) higher input prices, and (d) the fiscal cost if the private partner goes bankrupt after several years of operation. Such stress tests should be required by the PPP contract. The Ministry of Economy and Finance should ensure that these tests are completed at minimum during two gateway checkpoints, the first after the project feasibility study is finalized, and the second after negotiations are concluded with the private partner but before the contract is signed.

Uzbekistan

17. As most PPPs are at an early stage of development, it is not yet apparent whether PPP selection has been subject to optimism bias. However, there is little reason to think Uzbekistan is

[7] World Bank (2017). *Public-Private Partnerships: Reference Guide* for additional examples.

[8] Ibid, p. 24.

an outlier in this respect. Work by the Ministry of Economy and Finance is underway to conduct scenario analysis regarding the scope of contingent liabilities.

Fiscal Illusion and Off-Budget PPPs

Risks

18. While PPPs may reduce expenditures in the near term, they may entail larger expenditures in the future. For example, if the government is the primary customer of an electricity generation project, it will have to pay for electricity from the project in the future. There is a risk that PPPs can be used to bypass limits on the budget and public borrowing in the near term, not giving sufficient weight to possible future costs. This risk is exacerbated since fiscal risks generally materialize later in a project.

Examples

- In **Jordan,** the share of public investment in total general government expenditures decreased from about 20 percent in 2009 to about 10 percent in 2013–2015. Because less financing was available for investment projects from the budget, government entities relied more on PPP projects. As a result, PPP debt guarantees almost doubled between 2010 and 2017.

- In **Mongolia**, PPPs were widely viewed as a way to finance projects when funding from the budget was lacking. As a result, PPP projects were implemented without attention to long-term implications. This led to higher future costs.

Solutions

19. As with assessing the value of a project, to avoid fiscal illusion the government should ensure that the costs and risks of PPP projects are evaluated during the selection process. PPP projects should not proceed until the Ministry of Economy and Finance has given approval. The possible realization of contingent liabilities should be considered during budget formulation.

Uzbekistan

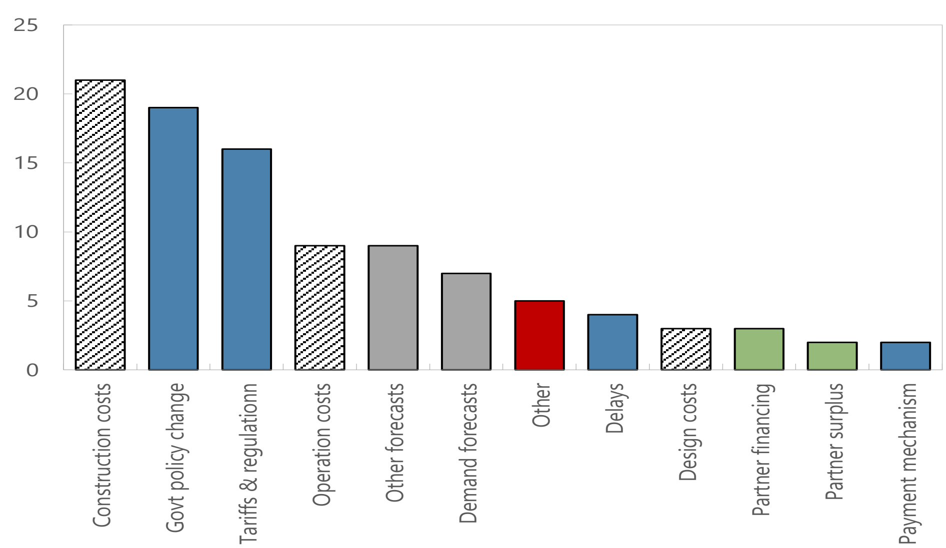
20. The Ministry of Economy and Finance has been developing the expertise to assess potential contingent liabilities, so that risks from PPPs are considered appropriately. Like in other countries, PPPs are not included in the budget and the liabilities of PPPs are not included in public and publicly guaranteed debt. The Ministry of Economy and Finance often struggles to get information from other ministries to assess fiscal risk at the early stages of project planning.

Renegotiation

Risks

21. The sharing of risks—which is a key feature of PPPs—can result in renegotiation of responsibilities. In many cases, renegotiation may be warranted to deal with new developments. However, the private partner may also attempt to renegotiate a project for its own benefit knowing the government incurs a cost when it switches partners or closes a PPP. Events that can trigger renegotiation include higher-than-expected construction costs, changes in government policy, changes in regulated prices, and higher-than-expected operating costs (Figure 7).

Figure 7. Main Causes of PPP Renegotiation



Source: Global Infrastructure Hub, PPP Reference Tool, Renegotiation, Chapter 4, 2018

Examples

- A study of 1000 projects in **Latin America**, found that 10 percent of electricity, 55 percent of transportation, and 75 percent of water projects were renegotiated.[9] Another study found a global renegotiation rate for PPPs of 33 percent, ranging from 12 percent in East Asia to 58 percent in Latin America.[10]

- From 1991 to 2007, **Chile** implemented an extensive program of PPPs. The accumulated value of these projects stood at $11 billion (about 5 percent of GDP) in 2007. Of this amount, a quarter of PPP investments required renegotiation, partly due to unclear institutional arrangements. While

---

[9] Guasch (2004) as cited in the *PPP Reference Guide*, p. 28

[10] Global Infrastructure Hub (2018). *PPP Reference Tool, Renegotiation*, Chapter 4, p. 20.

the initial contracts were awarded competitively, the renegotiations did not require competitive bidding resulting in higher costs to the government.[11]

Solutions

22. Several methods can be used to minimize renegotiation of PPP contracts. For example, in 2010, **Chile** revised its PPP law to establish a Technical Expert Panel to review disputes between the government and private partners. The Panel's recommendations have been followed in 40 percent of cases. When the private partner disagrees with the recommendations, the law requires mandatory arbitration. The revisions to the Chile's PPP law also exclude the existing partner from participating in tenders for additional work agreed during renegotiation. After the PPP law was revised, the fraction of investment that was renegotiated fell from over a quarter to less than one percent.[12] **Colombia** and **Peru** followed a similar strategy, forbidding renegotiation during the first three years of a PPP project. In **Australia**, renegotiations of a PPP project require Cabinet approval. As noted earlier, it is also important for the Ministry of Economy and Finance to assess any changes to PPP contracts just as they would for new PPP projects.

Uzbekistan

23. As PPPs are relatively new in Uzbekistan, there have not yet been significant renegotiations of PPP contracts. Nonetheless, as in other countries, there is likely to be pressure to renegotiate contracts in the future.

E. Managing Risks

The previous section focused on individual risks and possible solutions. This section focuses on global solutions to mitigate macro risks.

Limiting Exposure with Annual Ceilings and Stock Caps

Risk

24. Even when individual PPP projects have acceptable fiscal risks, the rapid accumulation of PPP projects can result in an overall level of PPPs that represents a macroeconomic risk.

Examples

To control risks from PPPs, many countries impose a limit on annual contracting or on the overall stock of PPPs. For example:

- **Armenia** limits the value of PPP contingent liabilities to GDP.

[11] Fisher, Ron (2011). *The Promise ad Peril of Public Private Partnerships: Lessons from the Chilean Experience*. International Growth Centre Rwanda, Institute for Policy Analysis and Research.

[12] Eduardo Engel, Ronald D. Fischer, Alexander Galetovic (2020). *When and How to Use Public Private Partnerships in Infrastructure: Lessons from International Experience*. NBER Working Paper 26766, p. 24.

- **Brazil** limits current spending on PPPs to five percent of current revenues.
- **China** limits PPP fiscal liabilities from local government budgets to 10 percent of their expenditure.
- **Georgia** limits PPP aggregate liabilities as a share of GDP.
- **Kazakhstan** limits the ratio of direct PPP liabilities to revenues.
- **Peru** limits the present value of PPPs to 12 percent of GDP.

Solutions

25. A ceiling on the overall stock of PPP investment is appropriate to limit the risk from contingent liabilities to fiscal sustainability. Although a cap would ideally focus on PPP liabilities, without sufficient information, a cap on the value of the stock of PPPs could be easier to implement. Such a cap would require a good database of PPP projects and their liabilities. Caps should have broad coverage and be easy to measure. And even if a cap on the stock of PPP liabilities is implemented, operational targets—for example, an annual limit on the signing of new PPP projects—may be needed. If potential fiscal risks are large and an annual ceiling or cap on the stock of PPPs is not sufficient to address these risks, the government could consider a reduction or a temporary moratorium on new PPP projects.

Uzbekistan

26. To manage the overall value of PPP projects and limit potential contingent liabilities, Uzbekistan's 2025 Budget includes an annual ceiling on the value of new PPP projects of USD 6.5 billion (about 6 percent of GDP). If a PPP project fails, the government may need to provide financing. While the government does not provide explicit guarantees to PPP projects, it may step in regardless. For example, if a toll road does not cover its expenses, the project could become insolvent. In this case, rather than closing the road, the government would likely take over its operation. To limit the size of such contingent liabilities, the annual budget law places a ceiling on the value of new PPP projects that may be signed during the year. The 2025 ceiling is relatively high and future ceilings should be lower to mitigate the risks. To further strengthen its management of PPP risks, the government is analyzing an upper limit on government commitments for PPP projects. An upper limit would provide another mechanism to prevent the buildup of possible liabilities from PPP projects and would complement the 60 percent of GDP cap on public and publicly guaranteed debt, which does not cover PPP liabilities. IMF staff are providing technical assistance to the government to identify an appropriate cap on the stock of PPPs.

Managing PPPs

Risks

27. After PPP projects have been selected and financed and implementation has begun, performance may be less than expected or unforeseen shocks may arise. Risks include lack of adequate monitoring, insufficient planning for dealing with unforeseen problems, lack of a designated monitor, and inadequate maintenance of PPP infrastructure.

Examples

- Both **Brazil** and **Hungary** use several performance measures to monitor PPP projects. These include measures of efficiency, service quality, and activity.[13]
- **Korea** has employed surveys to evaluate user satisfaction with PPP projects.
- **South Africa** determined that delaying road maintenance for three years results in repairs that cost six times more than the cost of preventative maintenance.
- In the **Philippines**, the government monitored monthly traffic volume on the Daang Hari-SLEX road PPP. This allowed the government to learn if the project was deviating from projections and to make changes or intervene to address them. KPIs included ensuring that tolls handled at least one vehicle every two minutes and that the toll could process a minimum of 400 vehicles an hour. To ensure proper maintenance, 15 KPIs were set on road maintenance, including indicators on road smoothness and maximum times for repairs to the road.[14]

Solutions

28. Governments should have in place an adequate system to monitor the private partner's implementation of a PPP.

- The **frequency of monitoring** should depend on the size of the project and stage of implementation. Large projects that pose the most risks may need quarterly or monthly monitoring.
- Monitoring also requires **a clear baseline and key performance indicators (KPIs)**. The baseline can often be obtained from the fiscal sustainability report (FSR). Key performance indicators should focus on measurable indicators of outputs, service quality, and financial performance. Users of the PPP services can often be a useful source of information on the quality of services provided. Where the government is the customer, payments can be reduced if the PPP does not meet KPIs.
- Proper risk management requires **reliable information** based on appropriate, ongoing reporting and oversight of PPP projects. Thus, PPP contracts should require PPPs to send annual financial statements to the government.
- If monitoring shows that risks are materializing, the government should have an **intervention plan** to address these risks and put the PPP project back on track.
- To promote **proper maintenance**, the PPP contract can include KPIs on maintenance issues.

[13] Organization for Economic Cooperation and Development (2017). *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, p. 81.

[14] World Bank. *Public-Private Infrastructure Advisory Facility* (PPIAF) website. Downloaded January 7, 2025.

Uzbekistan

29. A series of laws and resolutions have been implemented in the last two years to improve the monitoring of PPP projects.

- In 2023, *Cabinet Resolution 558* established the Fiscal Risk Assessment Department (FRAD) in the Ministry of Economy and Finance and dictated a procedure to review and approve fiscal liabilities and ensure there are sufficient funds in the budget to cover direct and indirect liabilities of the state. Fiscal liabilities must be evaluated when the project concept and project evaluation documents are approved and immediately before signing the PPP agreement. Projects that are valued at USD 10 million or more and payment of contingent liabilities that exceed previous projections require approval by the Cabinet of Ministers. Each year, the Ministry of Economy and Finance, together with the Cabinet of Ministers, must propose to the Parliament budget limits on guarantees and fiscal obligations of PPPs.

- Issued in August 2024, *Presidential Decree 308* on "Measures on the Development of Public-Private Partnerships for 2024-2030" requires the government to amend the Public Debt Law to include an upper limit on take-or-pay agreements and letters of comfort for PPP projects. It replaced the PPP Development Agency with a new Center for Public-Private Partnership Projects, established to coordinate the implementation of PPP projects. The Decree also requires that the text of all PPP agreements be sent to the MoEF, the establishment of a PPP registry, and an annual presentation to Parliament on the status of PPPs.

- Issued in October 2024, *Cabinet Resolution 720* on the "Procedures for Implementation and Financing of PPP Projects" replaces Resolution 259 adopted in 2020. Resolution 720 clarifies the procedures for approving and implementing PPPs. These include addressing property rights issues and amending the requirements for private partner technical expertise, and the qualification criteria of third parties. The Resolution also requires PPP projects to have measurable Key Performance Indicators (KPIs).

Annex I. The Legal and Institutional Framework for Public-Private Partnerships

Uzbekistan's Legal and Institutional Framework for PPPs has Developed Rapidly.

- In June 2018, the government passed a **Law on Public Private Partnerships** (LRU-537). The Law specifies the principles and scope of PPPs. It also lists the rights and obligations of parties to a PPP agreement and creates procedures for preparation, approval, amendment, or termination.
- In December 2018, a **Cabinet Decree on the Organization of the Agency for the Development of PPPs** (No. 1009) established a PPP Development Agency in the Ministry of Finance (MoF) with staff of 30. Its role was to help line ministries identify potential PPP projects. It was not designed to ensure budget affordability or assess fiscal risks.
- In December 2019, Uzbekistan adopted a **Law on Investments and Investment Activity**. The Law established a regime to protect and promote foreign and domestic investment, bringing together previous Laws, including the Law on Foreign Investments, the Law on guarantees and measures to protect the rights of foreign investors, and the Law on Investment Activities. The Law allows for free transfer of funds in and out of Uzbekistan and protection from nationalization.
- In 2020, **Cabinet Resolution 259** was passed, providing procedures for execution of PPP projects. It determined procedures for initiation, development, consideration of PPPs, selection of private partners, and for maintaining a register of PPP projects.
- In January 2021, the **PPP Law was amended**. The amendment requires the Ministry of Economy and Finance to approve projects that incur direct costs to the budget, create contingent liabilities, or create any other direct or indirect costs that would be borne by the budget.
- In August 2021, **Regulation 509** was adopted specifying the procedure for approving PPPs.
- In April 2023, the government introduced a **Public Debt Law**. The law did not define debt incurred by PPPs as part of public and publicly guaranteed debt but did allow the government to introduce a limit on guarantees to PPPs.
- In October 2023, **Cabinet Resolution 558** was adopted, implementing a procedure for the government to review and approve fiscal liabilities from PPPs.
- In August 2024, **Presidential Decree 308: Measures on the Development of Public-Private Partnerships for 2024-2030** requires the government to amend the Public Debt Law to include an upper limit on certain guarantees for PPP projects. This decree also approved a program of PPP projects from 2025 to 2030 totaling USD 30 billion. It replaced the PPP Development Agency with a new Center for Public-Private Partnership Projects, established to oversee the execution of the PPP Program.
- In October 2024, **Cabinet Resolution 720** on the **Procedures for Implementation and Financing of PPP Projects** replaced resolutions 259 and 509. The resolution provides for PPP projects in a broader range of areas, addresses property rights issues, and introduces a requirement for measurable Key Performance Indicators (KPIs).

- The **2025 Budget limits** the value of new PPP projects, which require the assumption of liabilities and issuance of letters of confirmation by the state, to USD 6.5 billion.

References

Akitoby. B; Hemming R.; and Schwartz G. (2007) *Public Investment and Public-Private Partnerships.* Economic Issues 40. International Monetary Fund (Washington: DC).

Eduardo, Engel; Fischer, Ronald D.; and Galetovic, Alexander (2020). *When and How to Use Public Private Partnerships in Infrastructure: Lessons from International Experience*. NBER Working Paper 26766.

Fisher, Ron (2011). *The Promise ad Peril of Public Private Partnerships: Lessons from the Chilean Experience*. International Growth Centre Rwanda, Institute for Policy Analysis and Research.

Fouad, M; Matsumoto C; Monteiro, R; Rial, I; and Sakrak, A.O. (2021) *Mastering the Risky Business of Public-Private Partnerships.* Fiscal Affairs Department, Departmental Paper No. 21/10. International Monetary Fund (Washington: DC).

Global Infrastructure Hub (2018). *Managing PPP Contracts After Financial Close*. Chapter 4: Renegotiation.

Nose, M. (2017). Enforcing Public-Private Partnership Contract: How do Fiscal Institutions Matter. IMF Working Paper 17/243. International Monetary Fund (Washington: DC).

Polackova Brixi, Hana; Budina, Nina; and Irwin, Timothy (2005) "Managing Fiscal Risks in Public-Private Partnerships", *Current Issues in Fiscal Reform in Central Europe and the Baltic States (Vol. 1 of 2): Main Report.* World Bank (Washington, DC).

Rybnicek, R.; Plakolm, J; and Baumgartner, L (2020). "Risks in PPPs: A Systematic Literature Review of Risk Factors, Their Impact, and Risk Mitigation Strategies." *Public Performance & Management Review*. Volume 43, Issue 5.

Vel, Y. and Monteiro, R. (2024). Republic of Uzbekistan: *Reviewing PPP Commitment Cap Options*. IMF Technical Assistance Report (Unpublished).

World Bank (2017). *Public-Private Partnerships: Reference Guide*, Version 3. (Washington, DC).

World Bank (2023). *Private Participation in Infrastructure* (PPI), Annual Report. (Washington, DC).