

- Final Paper -

PROSPECTS FOR ATTRACTING PRIVATE INVESTMENTS IN ROAD INFRASTRUCTURE PROJECTS IN UZBEKISTAN

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Paper Abstract

Roads are an important part of industrial and social infrastructure in Uzbekistan. Due to geographical location and infrastructure conditions, most of the cargo and passenger traffic in the country falls to the share of roads. In particular, transportation by road accounts for about 85% of all freight traffic and over 95% of passenger traffic, which confirms the strategic role and importance of roads in the socio-economic life of the country.

High growth of motorization, intensification of domestic and regional trade along with other economic factors requires serious attention to further development of road infrastructure. Currently a program of construction and reconstruction of the Uzbek national highway is being implemented, which is designed for the period till 2015 (1). Amount funding for road construction and reconstruction has been steadily increasing over the past years. In 2010 more than 412 billion soums have been invested into construction and reconstruction of roads (2).

At the same time, condition of many roads remains poor. Present condition of many parts of intercity highways and local roads do not meet the requirements. Current funding of construction and repair work in the field of road does not cover growing needs, while there are cases of poor execution of road construction works by contractors. According to experts, quality control and monitoring system over the execution of road construction (reconstruction, capital and current repair) works needs to be re-examined and improved.

This paper examines the current state of construction and operation of highways in Uzbekistan and suggests ways for improving the regulatory framework and current practices in the road construction sector. It suggests that the function of technical supervision of road construction works should be transferred from customers to an independent agency to ensure proper control and effective monitoring. Public-private partnership mechanism is recommended for construction and reconstruction of roads of international and national importance, however, implementation of such measures requires re-vision in the legislative and normative acts.

PROSPECTS FOR ATTRACTING PRIVATE INVESTMENTS IN ROAD INFRASTRUCTURE PROJECTS IN UZBEKISTAN

INTRODUCTION

Roads are an important part of industrial and social infrastructure in the economy of Uzbekistan. To date most of the cargo and passenger traffic falls to the share of roads. In particular, transportation by road accounts for about 85% of all freight traffic and over 95% of passenger traffic, which confirms the strategic role and importance of roads in the socio-economic life of the country.

The observed high growth of motorization, along with several other economic factors, necessitates additional investment into transport infrastructure:

- Annual increase in traffic on the roads ranges from 0,5% to 2,5%;
- Increase in the number of automobiles held by households (as of 2010 an average of 27 cars per 100 households);
- Growth of transit goods through the territory of Uzbekistan, which is expected to reach 1 million tons per year by 2020.

In this regard, it is important to improve the system construction, maintenance and operating of roads. Currently a program of construction and reconstruction of the Uzbek national highway is being implemented. In 2010 412.4 billion soums have been invested into construction and reconstruction of roads. In 2011 it is planned to invest 609.8 billion soums for the same purposes, along with commissioning of 302 km of new motorways.

At the same time, condition of many roads is poor. The current state of many parts of intercity highways and local roads do not meet the requirements. Current funding of construction and repair work in the field of road does not cover growing needs, while there are numerous cases of poor execution of road construction works by the contractors. According to industry experts, quality control and monitoring system of execution of road construction works needs to be re-examined and improved.

This paper aims to examine the current state of construction and operation of highways in Uzbekistan and develop recommendations for improving the regulatory framework to ensure wider participation of private sector representatives in the road infrastructure projects.

CHAPTER 1. THE CURRENT STATE OF ROAD CONSTRUCTION SECTOR

Role of transport infrastructure in the socio-economic development of Uzbekistan has been increasing with the expansion of domestic and foreign trade, and growth of population. According to various estimates, the annual increase of traffic on the roads ranges from 0.5% to 2.5%. Share of transportation by road is about 85% of freight traffic in Uzbekistan and more than 96% of passenger traffic, which emphasizes the strategically important role of roads in socio-economic life of Uzbekistan. In addition, in recent years there is also a tendency of increasing the flow of transit cargo.

Over the past years targeted improvement of road infrastructure was provided, production and industrial capacity of the road industry was created, and volume of construction and reconstruction of highways increased. In 2006 public roads development concept for the period 2007-2010 and further was adopted. In 2009 Government launched an ambitious program of

reconstruction and development of Uzbek national highway (UNA), which is planned to be implemented during the period till 2015 (1). The total length of roads that are part of the UNA, is 2755 km, which is about 70% of all roads of international importance. The program provides for the expansion of construction and reconstruction of 4-lane highways of international Category I, allowing its easy passage by vehicles with an axial load of 13 tons and complying international standards.

At the present, the length of public roads in the Republic of Uzbekistan is more than 42.6 thousand km, more than half of which are local roads. The annual volume of reconstruction of roads is around 200-250 km, which corresponds to roughly 0,5% of the total length of roads in the country (2). According to experts, these volumes are not enough and there is a need for new approaches in road construction to improve roads condition in the country.

Types of roads	Number	Length	
		km	in %
Roads of international importance	11	3979	9,3%
Roads of national importance	229	14069	33,0%
Roads of local importance	1802	24606	57,7%
Bcero:	2042	42654	100%

Table 1. Main characteristics of highways in Uzbekistan (3)

Major efforts are directed to the road of international and national importance. In 2010, construction and reconstruction of 238 km of the UNA has been conducted, which reaches about 67% of all work performed during the year. In 2010, 378 million USD (an increase of 31.5% compared to 2009) was invested into road construction (reconstruction, repair and maintenance) purposes. In 2011 for construction and reconstruction of roads included in UNA 547 million USD will be allocated with the commissioning of 302 km of motorways (4).

Although more attention has to be paid to the condition of intra-state roads (local roads, roads of the streets of cities and other settlements), which causes great problems. In accordance with current regulations, the construction, reconstruction, repair and maintenance of the streets of towns and other populated areas, funded by local budgets. In practice, local authorities face with the issues of lack of funds, poor construction equipment of road maintenance enterprises and lack of qualified specialists.

In accordance with current regulations, main customers of works on public roads are National Road Fund (RRF), Single customer service under the Council of Ministers of the Republic of Karakalpakstan and provincial authorities, the State Joint Stock Company "Uzavtoyol" and its subdivisions. Main customer of construction works on the roads of national and international importance is RRF, whereas Single customer services under provincial authorities are responsible for similar work on local roads (5).

The customers also entrusted with the implementation of technical supervision over the work performed. When testing and accepting delivery of works performed by contractors, customers must adhere to the parameters of construction documents and their actual compliance. In some cases, work performed by non-specialized road organizations, resulting in a low quality of work performed (6). In order to ensure appropriate controlling and monitoring the quality of work, it is recommended to delegate some functions of conducting technical supervision of road construction works to an independent agency.

Maintenance and daily repair of public roads is provided by units of SJC "Uzavtoyol", which is in charge of these roads. These operations are carried out by means of RDF and based on cost

estimates approved by the SJC "Uzavtoyol" in agreement with the fund. As practice shows, in some cases proper control of the quality of work performed in repair and maintenance of highways is not provided. Perhaps it is necessary to consider some new mechanisms (e.g., transfer of rights of road maintenance on a competitive basis), allowing to increase the responsibility of departments of SJC "Uzavtoyol" for quality of works.

Condition of road infrastructure and services also needs special attention (motels, campgrounds, gas stations, service stations and other facilities). As analysis shows, in many sections of roads the number of service facilities exceeds the standard values for several times. For example, on the road from Tashkent to Bukhara, at average, on every 1.5 km of the road there is one service object. This affect the safety and speed of communication.

CHAPTER 2. PRIVATE SECTOR PARTICIPATION IN ROAD CONSTRUCTION

Several important reforms have been implemented in the field of road construction over the past 10 years. As a result of reforms it was possible to provide a steady stream of operating funds into the industry by creating a specialized structure (RRF), to introduce more transparent system of competitive bidding (tender) for the performance of road construction works. On the basis of existing enterprises of SJC "Uzavtoyol" there were created territorial road maintenance organizations and specialized repair and maintenance companies for roads and bridges.

In principle, the legislation provides mechanism of competitive (tender) selection of contractors for road works. However, in practice, most part of funding of construction and repair contractors are allocated on the basis of direct contracts (based on individual decisions of the Government). In 2009, funding levels under direct contracts have reached 65% of the total volume of road works. The same trend continued in 2010, which hinders the development of competition and wider participation of private sector in the road construction projects.

Against this background, as a positive step is the adoption of the Resolution of President of the Republic of Uzbekistan № 1475 dated February 7, 2011 "On the optimization of the public procurement system and attracting small businesses into them." The document stipulates that the selection of contractor to perform work on construction and reconstruction costing up to 500 million sum, financed from the state budget and other centralized sources is carried out exclusively among small businesses. It is expected that the share of private business will reach 40% of the total cost of capital and partial repair in 2011.

In recent years, tendency of increasing participation of private firms in the field of road infrastructure can be noticed. In particular, the number of private companies participating in tenders held by RDF is gradually growing. In 2008, the number of participants in tenders from among private companies amounted to 23 units against 61 public companies, while in 2010 number of private firms participating in tenders reached 31. In 2010 private firms undertook 25% of capital and partial repair works in the road sector as a general contractor. At the same time, the degree of private participation in construction and reconstruction of roads remains low. There are no formal restrictions on access of private sector to competitive bidding. However, in view of large amount of work and lack of appropriate equipment, private firms are not competitive.

Today the market of construction and repair of roads is highly concentrated. Companies that are part of the SJC "Uzavtoyol" are monopolies in local markets (regions and districts of the republic). Repair of streets of cities and other settlements of the local (district, city) importance is mainly conducted by territorial and district offices of SJC "Uzavtoyol." It is estimated that about 90% of the amount of works on road construction is conducted by divisions of SJC "Uzavtoyol." Participation of private entrepreneurs in this market held back by their undeveloped technical capacity, limited financial resources and lack of experience in implementing large and complex projects. Many private firms conduct mostly subcontracts, providing certain services, since only

a limited number of private companies can perform the full range of work required by RDF, to accomplish large-scale "turn key" projects.

Organizations / Functions	Conducting tenders for construction works on the roads of international and national importance	Conducting tenders for construction works on the roads of local importance	Technical supervision over implementation of construction works on the roads	Maintenance and current repair of automobile roads
Republican Road Fund	X		X	
Single customer service under municipalities		X	X	
State Joint Stock Company "Uzavtoyul"				X

Table 2 . Functions of organizations in the field of road construction in Uzbekistan

Current condition of roads of cities, district centers and other settlements are in poor condition. This is primarily due to lack of financial resources for construction, repair and maintenance of roads (financed from local budget) and low equipment level of road maintenance enterprises. Financing of road construction works only through allocated budget will not solve the problem of restoring the entire road network. International experience shows that today private investment in roads is growing significantly especially in South America, Asia and Europe. Many countries address issues of funding by attracting private sector investments through the use of public-private partnership. For example, in some European countries (Italy, Spain and Portugal), private enterprises, which received the right to perform road construction work have opportunity to exploit roads for 10 years. In turn, this scheme of cooperation allows private sector both to earn income through subsidies from the state for construction and operation of roads and through the provision of roadside services on the basis of exclusive rights for construction and operation of roadside infrastructure objects.

In many other countries (including France, Israel, Korea, Japan, India, Brazil, Argentina, Chile), private companies have opportunity to perform road works on the principle of "Build-Operate-Transfer". This means that private enterprises are investing their own funds to construct alternative road sections, which they exploit for a certain period (usually not less than 15 years) and at the end of contracted period, they transfer facility to the state. This allows to attract investment from the private sector, increases interest of private operator in qualitative performance of road construction works in accordance with the requirements of state body, as well as providing road maintenance at a high level and to create additional conditions for passengers and drivers in order to increase the number of vehicles and passengers using this road. Implementation of such mechanisms in Uzbekistan requires introduction of changes in regulations, resolving issues of interaction between state authorities and businesses.

According to local legislation, contracts for implementation of large projects (exceeding the equivalent of 50 thousand U.S. dollars), will be based on results of tenders. As experience shows, many private enterprises do not have opportunity to participate in such tenders due to limited time for preparation and submission of tender documents. Terms of competitive bidding generally lasts for 30 calendar days, which sometimes is not sufficient to vendors. There is no practice of advance notice of competitive bidding. Tenders have requirement for contractors to provide guarantees of a bank to provide working capital of not less than 20% of tender subject's value. At that, the guarantee must be confirmed by the head office bank, which requires additional time for approval and registration of the document.

RECOMMENDATIONS

1. Improving legal framework of competition and participation of small and private businesses in construction, repair and maintenance of roads:

- Development and adoption of the Law of the Republic of Uzbekistan "On public-private partnership" for regulation of relationships in the sphere of attracting private sector funding for infrastructure projects;
- Amendment to the Law of the Republic of Uzbekistan "On concessions" regarding the inclusion of roads in the list of objects of concession agreement between government and private investor;
- Develop and adopt normative-legal acts regulating the procedure for bringing private investors in projects to build roads through concession agreements.

2. Strengthening of social control, promoting competition and strengthening the capacity of private enterprises in road management:

- Transfer function to implement technical supervision of road construction from customers (RDF and a single customer service at khokimiyats) to an independent agency. This will ensure proper control and effective monitoring of implementation of road construction works. Such a control system is implemented and successfully operates in many countries;
- Implement economic incentives of good quality road maintenance by introducing a mechanism of competitive selection of contractor. This measure would open access to this market for the private sector and increase responsibility of departments of SJC "Uzavtoyol" for the quality of maintenance and current repairs of public roads;

3. The introduction of public-private partnerships and greater participation of private enterprises in road management:

- Implementation of mechanism of concession agreement for construction and reconstruction of roads of international and national importance. Under this mechanism, the state attracts private investors to cover a certain part of cost of the project, which can be compensated through redistribution of income from international transit of trucks;
- Introduction of practice whereby contractors (private sector) performing construction and repair work on roads will be granted with the right for operation and maintenance of roads (primarily roads of cities, district centers and other settlements) in for at least 5 years;
- Use of the mechanism of competitive (tender) selection of contractors to perform work on construction, reconstruction and repair of public roads. It is recommended to set a limit on the maximum amount of funding allocated to contractors on the basis of direct contracts no more than 25% of total annual funding.

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