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Improving Economic Instruments for Transport Service Management in Uzbekistan

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ABSTRACT

Uzbekistan's transport sector has expanded rapidly in recent years alongside economic growth, placing new strains on infrastructure and service quality. The government recognizes that efficient transport services are vital for national development and trade, especially for a double-landlocked country seeking to become a regional transit hub. This paper examines the current state of transport services in Uzbekistan – characterized by a dominance of road transport, underutilization of rail, and emerging reforms – and identifies key challenges in financing, regulation, and sustainability. It proposes a set of economic instruments and policy measures to improve the management of transport services. These proposals include enhancing infrastructure financing through public-private partnerships (PPPs) and dedicated road funds, introducing targeted user charges and land value capture mechanisms to fund maintenance, encouraging greater private sector participation and competition in transport services, optimizing subsidies and pricing strategies (for example, for fuel and public transit) to balance cost recovery with accessibility, and incentivizing sustainable practices such as the adoption of cleaner vehicles. The recommendations are aligned with Uzbekistan's strategic goals of reducing transport costs, improving logistics performance, and expanding transit potential, while ensuring social equity and avoiding any criticism of existing systems. By implementing these improved economic instruments, Uzbekistan can modernize its transport sector management, support economic growth, and better integrate into regional and global transport networks.

Keywords: transport services; economic instruments; transport policy; public-private partnerships; infrastructure financing; sustainable transport; logistics.

Introduction Transport plays a key role in Uzbekistan's economy and connectivity. Over the past five years, the country's economy has grown by 24%, and industry by 34%, leading to a sharp increase in demand for transportation. To sustain this growth, the government plans to attract $120 billion in investments, of which $14 billion will be directed to the transport sector through public–private partnership (PPP) mechanisms. These measures reflect a strategic goal — to transform Uzbekistan, a landlocked country, into a transit hub between Asia and Europe.

However, several challenges remain: transport costs account for about 15% of product prices; road transport dominates, causing road congestion, while railways and public transport remain underutilized. Insufficient investment in infrastructure maintenance and limited private sector participation also reduce efficiency.

In response, the government is carrying out large-scale reforms — establishing the Ministry of Transport, reforming tariff policy, developing road and rail networks, introducing digitalization, and promoting private investment. Subsidies for exporters, tax incentives for railway operators and electric vehicle manufacturers, and accelerated development of PPP infrastructure have been implemented.

Special attention is given to environmental sustainability: the use of natural gas and electric vehicles is expanding, and by 2030, 80% of public transport is planned to switch to eco-friendly energy sources. These measures aim to reduce costs, enhance resilience, and turn Uzbekistan into a modern, competitive transport and logistics center for the region.

In summary, Uzbekistan's transport sector today is at a crossroads. On one hand, robust economic growth and strategic ambitions are driving massive investments and a push for improved services. On the other hand, the dominance of road transport, underinvestment in maintenance, and legacy of state-centric control present ongoing challenges. Economic instruments of policy – funding mechanisms, incentives, pricing, and partnerships – will be pivotal in addressing these challenges. The next section of this paper discusses specific proposals to strengthen and refine these instruments, thereby improving transport service management in line with Uzbekistan's development goals.

Expand and Deepen the PPP Program: Given the government's commitment to attract private investment, a top recommendation is to effectively implement and expand PPPs for transport infrastructure. This involves not only approving a pipeline of projects but also ensuring transparent and fair contracts that allocate risks appropriately between the public and private partners. PPPs can bring in much-needed capital and expertise for projects like highways, toll roads, logistics centers, and airports. As Uzbekistan moves from having minimal transport PPPs to handling a large $30 billion pipeline, it should strengthen its institutional capacity to manage these partnerships (e.g. dedicated PPP units within the Ministry of Transport or Finance to oversee project preparation, tendering, and monitoring). Successful execution of PPP projects will instill confidence and attract more investors. The focus should be on projects that can generate revenue streams – for instance, toll highways or freight terminals – so that investors can recover costs without heavy ongoing subsidies. International experience suggests that transparent competitive bidding and robust feasibility studies are key to PPP success. Uzbekistan should leverage assistance from development institutions (World Bank, ADB, etc.) in designing PPP frameworks and standard contracts, which can ensure that the public interest is protected (e.g. tariff limits, performance requirements) while still offering reasonable returns to private partners.

Introduce Targeted Road User Charges: To complement PPP financing, Uzbekistan can consider introducing road user charges as a sustainable funding source for road maintenance and expansion. Currently, despite significant revenues from fuel taxes and vehicle fees, none of these are earmarked for the road sector, and maintenance funding has lagged. Implementing user-pays principles could involve measures such as modest fuel surcharges, tolls on major highways or bridges, and heavier vehicle road use fees. For example, a small levy on diesel and petrol dedicated to a road maintenance fund could provide a steady stream of income for upkeep (many countries earmark a portion of fuel excise for this purpose). Alternatively, tolling new high-capacity roads (especially those built or upgraded via PPP) can directly involve the beneficiaries of improved roads in paying for their costs. A policy paper by Berlin Economics specifically suggested that sector-specific instruments like road user charges or land value capture should be assessed to finance infrastructure investments. Land value capture is an innovative tool where the increase in land and property values resulting from new transport infrastructure is partly tapped (through taxes or development fees) to fund the project. In urban areas, for instance, if a new metro line or BRT system is built, nearby real estate values rise – a fraction of this windfall can be recouped via betterment levies or higher property taxes to fund the transit system. Uzbekistan could pilot such approaches in cities like Tashkent, which is expanding its metro and bus networks, to ensure these investments have dedicated funding. Importantly, any introduction of user charges should be done gradually and with attention to social impact – perhaps starting with commercial freight traffic and high-income users – so as not to unduly burden everyday commuters. The revenue from these charges must also be transparently managed in a road fund or transport fund earmarked for maintenance and improvements, to build public trust that fees paid are reinvested into better roads and services. International examples from countries like Morocco and South Korea show the effectiveness of earmarked funds: Morocco's road fund is financed by fuel taxes and vehicle fees and has successfully channeled money into rural road development, while South Korea's Transport Tax and special account ensure that over 65% of collected transport levies are reinvested in roads and railways. Uzbekistan can take inspiration from these models to rebuild a sustainable financing mechanism for its road network.

Leverage "Land-Linked" Transit Potential with Infrastructure Corridors: As part of financing strategies, Uzbekistan should also continue to leverage loans and grants from international partners for major corridor projects, but in a more coordinated fashion that maximizes long-term benefits. Given its location, Uzbekistan stands to gain from becoming "land-linked" (as opposed to landlocked) by serving as a transit country for regional trade. Investments in international transport corridors (roads and rail connecting to neighboring countries and ports) are already a priority, and many are supported by multilateral development banks. Ensuring these investments are economically justified and accompanied by policies to capture transit fees or services revenue is another aspect of economic instrument use. For example, transit fee agreements for rail freight, or service concessions at logistics hubs, can generate income. The key proposal here is to integrate corridor infrastructure plans with logistics service development – such as dry ports, free economic zones, and customs facilitation – so that Uzbekistan can offer value-added services (transshipment, warehousing, etc.) that bring revenue. This ties into the broader theme of using infrastructure to boost trade competitiveness; indeed, a government objective is to lower transport costs as a percentage of export product value to make Uzbek goods more competitive. By 2026, the country hopes to drastically increase exports (to $30 billion) and reduce the share of raw materials, which will require efficient logistics. Proper economic management of new infrastructure – possibly through concessions to experienced operators for running terminals or providing rail services – can ensure these corridors are financially sustainable and contribute to the national economy rather than becoming a fiscal drain.

Strengthen Regulatory Framework: As the private sector's role grows, the regulatory framework must be strengthened to protect consumers and ensure fair competition. Uzbekistan should establish independent regulatory units or empower existing ones (like antimonopoly authorities and transport regulators) to monitor pricing, prevent collusion, and enforce safety and labor standards in transport services. For instance, if toll roads are operated by private concessionaires, a regulator should review toll rates and service quality. If multiple freight companies use the rail network, a rail regulator should allocate track access fairly and mediate disputes. This is an important part of economic instruments – regulation is the counterpart to market-driven approaches, ensuring that the benefits of competition (lower costs, better quality) are realized without market failures. The government's ongoing reforms, such as moving tariff-setting and licensing to the Ministry of Transport rather than the railway company, are steps in this direction. Continuing to build capacity in these regulatory roles is recommended. Notably, Uzbekistan showcased intent to reduce the role of the state in the economy and abolish exclusive rights of certain state enterprises as part of broader economic reform. The transport sector is a prime candidate where reducing state monopolies and introducing competitive principles will pay off.

Rationalize Fuel and Energy Subsidies: Energy pricing is a key economic instrument affecting transport. Uzbekistan has traditionally kept fuel prices (especially for natural gas and electricity) at subsidized or controlled levels to support affordability. However, broad fuel subsidies can encourage inefficient use of transport and strain state finances. A proposal is to gradually reform fuel subsidies by targeting them only to the groups that need support (such as low-income households or strategic public services) while letting market prices prevail for most users. The International Energy Agency noted that subsidized energy tariffs in Uzbekistan discourage efficiency improvements. In transport, this likely translates to wasted fuel, higher emissions, and congestion. By phasing out general subsidies for motor fuel and instead perhaps instituting a moderate fuel tax (as discussed earlier, earmarked for infrastructure), the government can both raise revenue and send a price signal to reduce wasteful fuel consumption. To offset impacts on vulnerable groups, part of the savings from subsidy reform can fund enhanced public transport or direct cash transfers. Given that many Uzbek vehicles run on CNG, pricing reforms should also consider gas tariffs – ensuring CNG remains economically attractive relative to gasoline (to maintain its environmental benefit) but not practically free. In parallel, the government can continue to encourage the shift to cleaner fuels by subsidizing the upfront cost of switching to CNG or electric. For example, funding conversion kits for gasoline cars to CNG or helping bus companies purchase electric buses yields long-term savings and emissions reductions.

Review Public Transport Fare Policies: Urban and intercity public transport fares should be set to balance affordability with financial sustainability. Currently, low fares (or even free services for certain groups) may make it hard for operators to maintain service quality. An economic instrument proposal is to adopt a differentiated fare structure and targeted subsidies: keep base fares affordable for the general population, but consider higher fares or premium services for those who can pay (e.g., air-conditioned express buses) and offer targeted discounts only for students, elderly, or low-income riders rather than universally low fares. Any operating subsidies paid to public transport companies should be tied to performance metrics to incentivize efficiency. For instance, a city could subsidize a bus route if it meets ridership targets or coverage of an underserved area. By using smart card systems and digital payments, authorities can implement such differential pricing and monitor usage data to inform policy. Ultimately, a financially viable public transport system that still protects the poor will reduce reliance on private cars, aligning with broader goals to manage congestion and emissions.

Invest in and Incentivize Rail and Intermodal Transport: To correct the current road-heavy modal split, Uzbekistan should continue investing in rail infrastructure and make rail and intermodal options more attractive through economic measures. The rail network, though relatively extensive, carries only a small fraction of domestic passengers and is underutilized for freight relative to its capacity. With rail being more energy-efficient (and in Uzbekistan's case, increasingly electrified) and safer for long-haul transport, shifting a portion of traffic from road to rail could lower overall transport costs and reduce road maintenance burdens. Economic incentives for shippers to use rail could include competitive tariff setting by UTY (possibly with temporary subsidies for certain cargo to kick-start usage), or tax rebates for industries that send a high percentage of their freight by rail. Improving rail service reliability and door-to-door logistics (through integration of rail with trucking at terminals) will be key – this might involve supporting the development of intermodal terminals and dry ports where containers can transfer between trucks and trains efficiently. The lack of linkages between transport corridors and transshipment terminals has been identified as a challenge for SMEs accessing global supply chains. By developing those linkages (for example, a modern freight terminal near Tashkent with customs facilities), and perhaps offering a lower handling fee for exports going via rail, the government can facilitate a modal shift. Additionally, finalizing railway liberalization as mentioned earlier will allow innovative logistics services to emerge, making rail more customer-oriented.

Leverage Digital Technology for Efficiency: Though not a traditional "economic instrument," digitalization in transport management can greatly improve efficiency and reduce costs, effectively achieving the goals of economic instruments. Uzbekistan is already pushing for digital logistics and e-government solutions at borders. Expanding these efforts – like implementing intelligent transport systems (ITS) for traffic management, electronic toll collection on highways, and GPS-based fleet management for public transit – can optimize the use of infrastructure and services. For example, an electronic toll system on a new expressway allows variable pricing (higher at peak times) to manage congestion – this is a modern economic instrument known as dynamic pricing. Likewise, a national freight information portal could match loads to trucks more efficiently, reducing empty trips. The proposal is to invest in such digital platforms, potentially with private tech companies via concession agreements, which ultimately save money for both users and the government (through more efficient asset use).

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