

# The Impact of Economic Relations between the Republic of Uzbekistan and the Asian Development Bank on the Economy of Uzbekistan

Otajonova Charoskhon

Master Student of the Tashkent State University, Tashkent, Uzbekistan

## ABSTRACT

This article describes the cooperation of Uzbekistan with the Asian Development Bank, its main directions, goals and practical implementation of projects accomplished and being accomplished over the years.

**KEYWORDS:** Asian Development Bank, international financial institutions, international capital, technical support, energy, private capital

In the context of modernization of the economy, the development of sectors of the economy, the expansion of the private sector, the state lacks its own internal financial resources. Of course, the role of international capital will increase. Today, the importance of international financial institutions in global financial relations is high. International financial institutions have large financial resources and large powers. These organizations form the basis of global financial and credit relations. Cooperation with international financial institutions not only allows the country to attract large sums of money to the economy, but also to have a place and voice in global financial relations. Therefore, expanding cooperation with international financial institutions is one of the most important issues for any country.

Funds raised from international financial institutions play an important role in the structural restructuring of the country's economy, modernization of production, rapid development of each sector and industry. At the same time, by financing the private sector through foreign credit lines, there is an opportunity to expand the activities of enterprises, increase production and bring the products of our country to the world market. Especially in recent years, the financing of small businesses and private entrepreneurship through foreign loans and grants has been expanding, with a special focus on the development of women's entrepreneurship and manufacturing and services in rural areas.

Today, Uzbekistan is a member of a number of international financial institutions and has bilateral and multilateral cooperation with these organizations. In this case, the role of the Asian Development Bank is very important.

The Asian Development Bank (ADB) is one of the largest international financial institutions providing long-term loans for development projects in Asia and the Pacific. The organization was founded on August 22, 1966 with the signing of an agreement by 15 countries and is headquartered in Manila, Philippines. The President of the Asian Development Bank is elected for a term of 5 years. The bank started its lending activities on December 19, 1966. The purpose of the bank was to contribute to the economic and

social development of developing countries in Asia and the Pacific.

The main goal of the Asian Development Bank is to promote the economic and social development of developing countries in Asia and the Pacific. ADB promotes economic development and cooperation among Asian countries, ensures the growth of capital investment from public and private funds, participates in the regulation of economic plans leading to the development of regional trade, provides technical assistance in the preparation and implementation of external projects. It plays a key role in promoting the country's foreign trade and economic development. The organization also has the following 4 strategic objectives:

1. Promoting cooperation and economic growth in the Far East and Asia;
2. Poverty reduction;
3. Human resource development;
4. Rational use of nature.

According to the charter of the Asian Development Bank, there are several special funds included in the banking system, which are:

- Special fund for long-term lending on favorable terms; Asian Development Fund;
- Special Fund for Technical Assistance.

The Asian Development Bank provides loans to developing countries from these funds as follows:

- For a period of 25 years on a commercial basis at the expense of an ordinary fund;
- Up to 40 years for backward countries at a preferential rate of 1-3% from the Asian Development Fund.

The Republic of Uzbekistan became a member of the ADB in August 1995. In 1997, a representative office of the Asian Development Bank was opened in Tashkent. The head of the representative office is T. Konishi.

The programs and projects implemented in Uzbekistan jointly with the Asian Development Bank include 4 main sectors:

- agriculture;
- development of private entrepreneurship;
- regional cooperation in the field of transport and customs transit;
- improving social services for child protection and primary education.

The Asian Development Bank's loans are mainly used to finance the purchase of technology and equipment, partial reimbursement of working capital costs, financing of sub-projects related to the modernization, re-equipment and establishment of new production facilities in the agricultural sector. The main borrower of this credit line is the National

Bank for Foreign Economic Activity of the Republic of Uzbekistan. Sub-borrowers can be private, small and medium enterprises. To obtain a loan, a project must produce a product that can replace exports and imports and be self-sufficient in foreign currency.

To receive a loan from the Asian Development Bank, the borrower must have at least 25% of the value of the project. The borrower must have collateral for the building, structure, machinery and working capital from the production process, as well as other funds to cover financial costs. The collateral must be at least 120% of the loan amount.

The interest rate for the loan is as follows:

- Asian Development Bank interest rate + margin of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan.

The margin of the National Bank is from 0.5% to 3% of the loan amount, depending on the value of subprojects. The loan management fee is 0.15% per annum (UZS) of the loan

amount. Repayment of the principal debt is made every 6 months.

The role of the funds allocated by the Asian Development Bank in the rapid development of our economy, as well as in improving the quality of life of the population in our country is very important. During Uzbekistan's membership in the Asian Development Bank, many fruitful projects have been implemented. As a result of cooperation, the economic development of our country has further increased. As of December 31, 2019, the Asian Development Bank has provided a total of \$ 8,671.36 million in loans to Uzbekistan. These funds were invested in a total of 221 projects. Projects on agriculture, natural resources and rural development; education; energy; financial health; industry and trade; transport; water and other urban infrastructure and services are focused on the development of important sectors and industries. The most funded sectors are: energy - \$ 2,004.91 million for 32 projects, finance - \$ 1,935.42 million for 38 projects, transport - \$ 1,777.87 million for 34 projects (Table 1).

**Table 1 Distribution of funds allocated by the Asian Development Bank to the Republic of Uzbekistan as of December 31, 2019 (million dollars)**

Networks	Projects	Funds provided (million USD) *	Interest rate
Agriculture, natural resources and rural development	33	784.68	9.05
Education	23	298.03	3.44
Energy	32	2004.91	23.12
Finance	38	1935.42	22.32
Healthcare	7	88.60	1.02
Industry and trade	4	175.90	2.03
Public sector management	21	632.21	7.29
Transport	34	1777.87	20.50
Water and other urban infrastructure and services	29	973.74	11.23
Overall:	221	8671.36	100

\*the numbers may not be accurately summed due to rounding.

**Source:** Prepared by the author based on the report of the official website of the Asian Development Bank.

The Asian Development Bank and the Republic of Uzbekistan signed a loan agreement about lending in the amount of 15.0 million US dollars for the implementation of the project "Financing the preparation of urban development projects in the Republic of Uzbekistan" with a repayment period of 25 years, including a grace period of 5 years on November 13, 2019. The total cost of the project was \$ 16.76 million, including:

Debt of the Asian Development Bank - 15.0 million US dollars;

The share of the Republic of Uzbekistan in the project was 1.76 million US dollars due to tax benefits, including exemption from value added tax, contributions to state trust funds, as well as corporate and personal income tax from legal entities and individuals who are not residents of the Republic of Uzbekistan;

The project implementation period is 4 years (2020 - 2023) (Table 2).

**Table 2 The main indicators of the project "Financing the preparation of urban development projects in the Republic of Uzbekistan"**

	Name of expenses	Unit of measure	Overall*	Sources of funding, including:	
				ADB debt	Share of the Republic of Uzbekistan
<b>The total cost of the project</b>		<b>thousand USD eq.</b>	<b>16 760,00</b>	<b>15 000,00</b>	<b>1 760,00</b>
<i>including:</i>					
1.	Consulting services	thousand USD eq.	13 600,00	13 600,00	
2.	Financial expenses during the investment period	thousand USD eq.	710,00	710,00	
3.	Retained earnings	thousand USD eq.	690,00	690,00	
4.	Tax and customs privileges	thousand USD eq.	1 760,00		1 760,00

\* The final cost of the project will be determined after the development of detailed design estimates and the results of tenders for the supply of goods (works and services).

**Source:** Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 426. 07.07.2020

The Asian Development Bank has set an estimate for repayment of debt and interest payments from 2020 to November 15, 2024. The loan amount was \$ 15 million, the loan term was 25 years, the grace period was 5 years, and the interest rate was

2.0%. According to the Asian Development Bank's debt repayment and interest payment forecast, interest payments on principal will be repaid between 15.11.2020 and 15.05.2024. The main goal is to repay the principal in parallel with the interest paid from 15.11.2024 to the end of the project, i.e. until 15.05.2044 (Table 3).

**Table 3 Asian Development Bank loan repayment and interest payment forecast for the project "Financing the preparation of urban development projects in the Republic of Uzbekistan"**

The amount of debt	15,0 million USD			
Loan term	25 years			
Preferential period	5 years			
Interest rate	2,0%			
Years	Interest on principal (thousand dollars)	Interest paid (thousand dollars)	Repayment of principal (thousand dollars)	Total refunds (thousand dollars)
15.11.2020	15,3			
15.05.2021	40,3			
15.11.2021	62,5			
15.05.2022	89,8			
15.11.2022	100,3			
15.05.2023	119,5			
15.11.2023	131,3			
15.05.2024	151			
15.11.2024		152,5	375	527,5
15.05.2025		148,7	375	523,7
15.11.2025		144,1	375	519,1
15.05.2026		141,1	375	516,1
15.11.2026		136,5	375	511,5
15.05.2027		133,4	375	508,4
15.11.2027		128,9	375	503,9
15.05.2028		125,8	375	500,8
15.11.2028		122	375	497
15.05.2029		118,2	375	493,2
15.11.2029		113,8	375	488,8
15.05.2030		110,6	375	485,6
15.11.2030		106,2	375	481,2
15.05.2031		102,9	375	477,9
15.11.2031		98,6	375	473,6
15.05.2032		95,3	375	470,3
15.11.2032		91,5	375	466,5
15.05.2033		87,7	375	462,7
15.11.2033		83,4	375	458,4
15.05.2034		80,1	375	455,1
15.11.2034		75,8	375	450,8
15.05.2035		72,4	375	447,4
15.11.2035		68,3	375	443,3
15.05.2036		64,8	375	439,8
15.11.2036		61	375	436
15.05.2037		57,2	375	432,2
15.11.2037		53,1	375	428,1
15.05.2038		49,6	375	424,6
15.11.2038		45,5	375	420,5
15.05.2039		41,9	375	416,9
15.11.2039		37,9	375	412,9
15.05.2040		34,3	375	409,3
15.11.2040		30,5	375	405,5
15.05.2041		26,7	375	401,7
15.11.2041		22,8	375	397,8
15.05.2042		19,1	375	394,1
15.11.2042		15,2	375	390,2
15.05.2043		11,4	375	386,4
15.11.2043		7,6	375	382,6
15.05.2044		3,8	375	378,8
<b>Total:</b>	<b>710,0</b>	<b>3120,2</b>	<b>15000,0</b>	<b>18120,2</b>

Source: Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 426 07.07.2020

**Findings from the study:** In conclusion, modernization and more rapid development of the economy will require additional capital and additional financial resources. Also, in today's globalization, a number of effective projects for the development of the public sector and the real sector are being implemented in our country in cooperation with international economic organizations and international financial institutions. As a result of these projects, it contributes to the development of our economy. International financial institutions play an important role in financing the ongoing socio-economic reforms, development and modernization of our country. In particular, we can see the dynamic development of cooperation between Uzbekistan and the ADB.

The conducted research and analysis, as well as the experience of developed countries, show that the further development of mutually beneficial cooperation between international financial institutions and Uzbekistan is one of the most important and topical issues. Foreign investment in the national economy, long-term and low-interest loans from the financial markets largely depend on the country's prestige in the international arena. This, in turn, means that we need to constantly improve our position in the rankings, which are regularly calculated by international

organizations. The increase in the international rating and prestige of our country will allow attracting lucrative contracts, long-term investments, low-interest loans from international financial institutions.

**References:**

- [1] Resolution of the President of the Republic of Uzbekistan "On measures to implement the project "Public Finance Management Reform" with the participation of the Asian Development Bank." PR-721 01.11.2007.
- [2] Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to implement the project "Financing the preparation of urban development projects in the Republic of Uzbekistan" with the participation of the Asian Development Bank."No. 426 07.07.2020.
- [3] Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020, ADBI Working Paper Series, No. 248, September 2010.
- [4] [www.adb.org](http://www.adb.org) - Asian Development Bank official website reports.

