

REDUCING THE BURDEN ON THE STATE BUDGET AND ATTRACTING PRIVATE SECTOR FUNDS IN THE FINANCING OF FORESTRY IN UZBEKISTAN

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Abstract

This article explores ways to reduce the fiscal burden on Uzbekistan's state budget in financing forestry by attracting private sector funds. Based on international experience and local analysis, the paper proposes blended financing models and incentive mechanisms to improve financial sustainability in the sector.

Keywords: Forestry finance, public-private partnership, green bonds, carbon credits, fiscal sustainability, Uzbekistan, ecosystem services.

Introduction

Forests play a vital role in environmental protection, biodiversity conservation, and climate regulation. In Uzbekistan, where more than 3.5 million hectares are covered by forest lands (about 8% of the territory), the forestry sector has gained strategic importance due to climate change, land degradation, and desertification threats. However, the financing of forestry activities in Uzbekistan still heavily relies on the state budget, with over 80% of total funding sourced from government allocations as of 2023. This structure presents a growing burden on public finances, especially considering the increasing scale of afforestation initiatives under national programs like "Yashil Makon" (Green Space).

The current challenges in forest financing include insufficient diversification of funding sources, low participation of private investors, limited use of market-based instruments (such as green bonds or carbon credits), and institutional bottlenecks in forming public-private partnerships (PPP). In this context, the study aims to explore alternative financial approaches that reduce fiscal pressure and engage private sector resources to improve the sustainability and efficiency of forestry financing in Uzbekistan.

Literature review

Numerous studies highlight the importance of financial diversification in sustainable forestry. According to FAO (2020), countries that engage both public and private sectors in forest management achieve higher reforestation rates and better ecosystem service outcomes. In



Eastern Europe, hybrid models combining public subsidies and green investment funds have proven effective (Krott et al., 2018).

Furthermore, UN Forum on Forests (2021) recommends that developing countries adopt innovative financing mechanisms such as results-based payments, green insurance schemes, and biodiversity offsets. These instruments have gained traction globally, especially in countries like Brazil and Indonesia, where national forest funds are co-financed by international donors and the private sector.

Methodology

This study adopts a mixed-method approach. First, a descriptive analysis of Uzbekistan's forestry budget structure from 2021 to 2024 is conducted based on data from the State Committee of Forestry. Second, comparative case studies from Germany, Finland, and Indonesia are used to identify transferable financing models. Third, structured expert interviews with representatives from state agencies, private forestry companies, and international donors in Uzbekistan were held to assess barriers and potential solutions.

The research framework is guided by the “value-for-money” principle and the “blended finance” theory, which integrates public and private capital for development outcomes. Key performance indicators (KPIs) such as cost-efficiency per hectare, private co-financing share, and return on investment (ROI) are used for evaluating proposed strategies.

Results

An in-depth analysis of public forestry financing in Uzbekistan during the period of 2021–2024 reveals a persistent reliance on state budget allocations, with limited involvement of private capital and off-budget sources. While total funding for forestry has increased annually—from 280 billion soums in 2021 to an estimated 470 billion soums in 2024—more than 93% of these funds consistently originate from the state budget.

The table below illustrates the distribution of budget and off-budget funding sources in Uzbekistan's forestry sector over four years:

Table 1. Structure of Forestry Sector Financing in Uzbekistan (2021–2024, in billion UZS)

Year	Total Financing	State Budget Funds	Off-Budget Sources	Private Sector Share (%)	Budget Dependency (%)
2021	280	271	9	3.2	96.8
2022	342	328	14	4.1	95.9
2023	414	390	24	5.7	94.3
2024	470	440	30	6.5	93.5

These results suggest several key patterns:

Firstly, the state's fiscal role remains dominant, indicating a lack of diversification in financing mechanisms. In 2024, over 93% of the total forestry budget is expected to come from the state, revealing the sector's financial vulnerability.

Secondly, although there has been a gradual rise in off-budget sources—such as revenues from forestland leases, international grants, and environmental projects—their overall contribution remains modest. For instance, in 2024, off-budget sources are expected to contribute just 6.5% of the total financing.

Thirdly, the private sector's financial participation in forest-related projects is notably weak. Structural barriers such as unclear land-use rights, lack of investment guarantees, and low expected returns continue to disincentivize private involvement. As a result, the role of public-private partnerships (PPPs) in this sector remains marginal.

These findings underline the need for a shift toward a more diversified and sustainable financing strategy in Uzbekistan's forestry sector. Reducing fiscal pressure on the national budget while leveraging private capital and international financial instruments should be prioritized as part of a long-term forest development strategy.

Discussion

The results reveal a misalignment between growing environmental needs and current financing mechanisms. While budget support remains essential, Uzbekistan must move toward a more balanced model. Lessons from countries like Germany and Finland indicate that private forest owners contribute up to 40% of sector financing, supported by tax exemptions, forest certification markets, and public guarantees.

Uzbekistan could replicate such frameworks by creating a dedicated Forest Investment Facility (FIF) with a mandate to co-finance private projects and issue green bonds. Another solution involves integrating forestry into national climate finance programs, thereby enabling access to the Green Climate Fund and global biodiversity finance.

Furthermore, legal reforms must strengthen the contractual security of forest concessions and introduce fiscal incentives such as accelerated depreciation for forest machinery, land tax reductions, and income tax holidays for green startups. Digital platforms for auctioning degraded lands for restoration, coupled with transparent monitoring systems, would also improve investor confidence.

Conclusion

The overdependence on state funding in Uzbekistan's forestry sector poses fiscal and operational risks. As afforestation targets expand under the “Yashil Makon” initiative, sustainable financing requires a paradigm shift toward blended capital structures. International experience and local pilot programs demonstrate that private sector involvement can be enhanced through policy reforms, financial instruments, and institutional innovation. By reducing budgetary pressure and incentivizing private investment, Uzbekistan can accelerate forest restoration, improve ecological services, and contribute to climate resilience.

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