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Report No: ICR00005965

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IBRD-89720, IBRD-91020)

ON A

LOAN

IN THE AMOUNT OF US\$ 700 MILLION

TO THE
REPUBLIC OF UZBEKISTAN

FOR THE

Sustaining Market Reforms in Uzbekistan Development Policy Operation (P168280)

Supplementary Development Policy Financing: Sustaining Market Reforms in
Uzbekistan (P173948)

February 28, 2023

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region



CURRENCY EQUIVALENTS

Exchange Rate Effective Feb 01, 2023

Currency Unit = Uzbekistani Sum (UZS)

UZS 11282.98= US\$1

US\$ 0.913926 = SDR 1

FISCAL YEAR
July 1 - June 30

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ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
BCP	Basel Core Principles
CBU	Central Bank of Uzbekistan
CPF	Country Partnership Framework
DPO	Development Policy Operation
GDP	Gross Domestic Product
ICR	Implementation Completion and Results Report
IFI	International Finance Institution
IMF	International Monetary Fund
LLC	Limited Liability Company
M&E	Monitoring and Evaluation
MW	Megawatt
NAK	National Aviation Company
OECD	Organization for Economic Co-operation and Development
PISA	Programme for International Student Assessment
PPP	Public Private Partnership
RE	Renewable Energy
SCD	Systematic Country Diagnostic
SME	Small and Medium-sized Enterprises
SOE	State-owned Enterprise
TA	Technical Assistance
WBG	World Bank Group



TABLE OF CONTENTS

DATA SHEET	1
I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES	5
II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES.....	10
III. OTHER OUTCOMES AND IMPACTS	19
IV. BANK PERFORMANCE.....	21
V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES	22
VI. LESSONS AND NEXT PHASE.....	23
ANNEX 1. RESULTS FRAMEWORK.....	25
ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES.....	32
ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS	38
ANNEX 4. SUPPORTING DOCUMENTS	39



DATA SHEET

BASIC INFORMATION

Product Information

Project ID	Program Name
P168280	Sustaining Market Reforms in Uzbekistan Development Policy Operation
Country	Financing Instrument
Uzbekistan	Development Policy Lending

DPF Options

Programmatic	Regular Deferred Drawdown Option	Catastrophic Deferred Drawdown Option
No	No	No
Crisis or Post Conflict	Sub-National Lending	Special Development Policy Lending
No	No	No

Organizations

Borrower	Implementing Agency
Republic of Uzbekistan	Ministry of Finance of the Republic of Uzbekistan

Program Development Objective (PDO)

Program Development Objective (PDO)

Sustain Uzbekistan's economic reforms and transition to a market economy by (i) increasing the role of markets and the private sector in the economy; and (ii) enhancing social inclusion.

PROGRAM FINANCING DATA (USD)

	Approved Amount	Actual Disbursed
World Bank Administered Financing		



IBRD-89720	500,000,000	500,000,000
IBRD-91020	200,000,000	200,000,000
Total	700,000,000	700,000,000

KEY DATES

Concept Review	Decision Review	Approval	Effectiveness	Original Closing	Actual Closing
13-Feb-2019	08-Apr-2019	14-Jun-2019	19-Jul-2019	31-Dec-2020	31-Dec-2020

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Satisfactory	Highly Satisfactory	Satisfactory

Bank Performance

Satisfactory

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US\$M)
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SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	17	0.00	0.00
Central Government (Central Agencies)	17	0	0
Financial Sector	8	0.00	0.00
Banking Institutions	8	0	0
Energy and Extractives	17	12.75	4.25
Other Energy and Extractives	17	75	25



Social Protection	33	0.00	0.00
Social Protection	33	0	0
Industry, Trade and Services	25	0.00	0.00
Other Industry, Trade and Services	25	0	0
Themes			
Major Theme/ Theme (Level 2)/ Theme (Level 3)			(%)
Private Sector Development			25
Business Enabling Environment			25
Investment and Business Climate			25
Jobs			25
Job Creation			25
Finance			8
Financial Stability			8
Financial Sector oversight and policy/banking regulation & restructuring			8
Public Sector Management			8
Public Finance Management			8
Public Expenditure Management			8
Public Administration			8
State-owned Enterprise Reform and Privatization			8
Social Development and Protection			8
Social Protection			8
Social Safety Nets			8
Human Development and Gender			17
Gender			17



Environment and Natural Resource Management	17
Climate change	17
Mitigation	12
Adaptation	4
Energy	17
Energy Policies & Reform	17

ACCOUNTABILITY AND DECISION MAKING

Role	At Approval	At ICR
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I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

A. Context at Appraisal

Context

This development policy operation (DPO)¹ supported the government’s reform priorities as elaborated in its *Development Strategy for 2017-2021*. The strategy was aimed at enhancing state and public institutions; securing the rule of law and reform of the judicial system; promoting economic development; fostering social development; and ensuring personal and public security through inter-ethnic and religious tolerance and a constructive foreign policy.

At appraisal, the country had enjoyed a peaceful transition of power following the adoption of a radical reform program by the new president in 2017. This program brought three decades of a tightly state-controlled economy to an end with exchange rate liberalization, the removal of administered prices and trade controls, and steps towards state-owned enterprise reform to address a highly distorted economy with grave macroeconomic imbalances, poor productivity performance, disappointing job creation, and substantial labor out-migration.² Reform steps were supported by two standalone DPOs and a supplementary DPO, with the operations under review being the second DPO, approved in May 2019, and its supplement, approved in April 2020. A further three standalone DPOs have been to date subsequently delivered, with the latest approved by the World Bank’s Board in December 2022.

The economy had enjoyed a period of steady growth (Table 1). Growth rates were lower than the average for the previous decade, due to: soft commodity prices; a weak Russian economy, thereby affecting Uzbek exports and remittances; agriculture was hit by bad weather; and manufacturing suffering from energy and water supply bottlenecks. The fiscal stance was prudent, although off-budget spending to support SOEs was increasing – this was noted as a cause for concern. Total expenditures rose significantly as a share of GDP in 2018 (the year of appraisal of parent operation) largely due to the high SOE and social safety net expenditures. Tax collections benefitted from improvements in tax administration. The current account deficit rose sharply, largely reflecting the acceleration in public and SOE investments and a rise in private consumption after years of suppression.

The outlook indicated strengthening growth to 6 per cent over the medium term based on the fruits of structural reforms. Gains came especially in agriculture and tourism, but also in manufacturing, given an easing of bottlenecks with new imports. The higher level of investment was expected to result in elevated current account deficits (6 per cent of GDP), which would be sustainable in light of the new investments raising efficiency and output and with financing sources being a comfortable combination of foreign direct investment, development assistance, some use of ample reserves, and utilization of fiscal space. The tax regime was assessed to be more business-supportive – base expansion was accompanied by rate reductions in personal and corporate taxes – with improved enforcement leading to a more even playing field. Expenditures as a share of GDP were projected to be unchanged

¹ The DPO “Sustaining Market Reforms in Uzbekistan” consisted of a parent operation (May 2019, PGD62) and a supplementary operation (April 2020, PCBASIC0220322).

² The Systematic Country Diagnostic (2016) identified the key constraints to inclusive growth to be: (i) **market distortions** undermining allocative efficiency and competition; (ii) **regulatory barriers** to firm operations preventing firm growth and formalization; (iii) **inefficient allocation of resources** (land, labour, capital) depressing agricultural productivity and rural incomes; (iv) **insufficient and inefficient infrastructure**, particularly connectivity, depressing competitiveness.



with increases in education, health, and pension spending being offset by a fall in extra-budgetary lending to SOEs. However, inflationary pressures were projected to persist partly reflecting the one-time effects of fuel and utility tariff adjustments on the way to cost recovery, further price liberalizations but also unsterilized credit expansion to SOEs, albeit diminishing³.

This outlook was thrown off by the impact of the pandemic from early 2020. At appraisal of the supplementary operation, growth for 2020 was cut to 1.6 per cent from an earlier 5.9 per cent, largely based on reduced exports, a sharp fall in remittances, and a fall in domestic demand. In March 2020 about 85 per cent of small businesses had closed temporarily. The fiscal deficit was projected to worsen from a pre-crisis estimate of 2.8 per cent of GDP to 5.5 per cent. These developments would result in a worsened current account deficit (8.5 per cent of GDP as opposed to 4.7 per cent) and much greater reliance on external debt (stock rising to 44.7 per cent of GDP as opposed to 37 per cent). Projections beyond 2020 suggested a strong recovery in output and a return to internal and external balances based on assumptions of continued counter-cyclical policy support and absent further waves of the pandemic.

The reform momentum was safeguarded despite the impact of the pandemic. The government was quick to adopt measures to protect economic activity (through support for businesses), re-target fiscal spending (towards health and social protection), utilizing the fiscal space available. These measures were financed by a combination of debt, leading to a rise in the debt to GDP ratio of seven percentage points beyond pre-pandemic projections, that included supplementary financing by the Bank and other International Finance Institutions (IFIs). Notably, the reform momentum was not slowed to any significant degree (barring action on private concessions in civil aviation, discussed later); indeed, the authorities continued to extend reforms further.

Debt sustainability risks were judged to be low.⁴ Nevertheless, close monitoring of and prudence on contingent liabilities was warranted given the access of SOEs and state-owned banks to external credit lines; moreover, SOE reforms towards sustainability and cost recovery and improved vigilance over banks would fortify debt and fiscal resilience. Despite the considerable rise in the post-pandemic debt burden, the appraisal during the supplementary operation (April 2020) reiterated the judgment of low risk based on the large IFI component on concessional terms in the rise in debt, debt related to gas-to-liquid energy projects (judged to be commercially viable), and institutional innovations towards a firmer rules-based approach to sovereign debt.⁵

The parent operation, in the amount of \$500 million,⁶ **selectively addressed a substantial body of reform priorities.** Key focus areas included macroeconomic and financial sector stability, agriculture, market entry, energy, aviation, public utilities and SOEs, as well as taxation, fiscal transparency and formal employment, quality of education and social safety nets. The parent operation also provided the basis for an IBRD *supplementary*

³ Although the Central Bank of Uzbekistan (CBU) had begun moving toward an inflation targeting (IT) framework in 2017-18, implementing IT in a transition economy is a big challenge and requires significant capacity building. The CBU adopted the formal IT strategy in January 2020.

⁴ World Bank / IMF Debt Sustainability Analysis (May 2019).

⁵ As part of a major budget reform package, the authorities established a debt ceiling in 2020 to limit sovereign external debt accumulation. The ceiling will be agreed annually with Parliament, based on financing needs and macroeconomic sustainability assessments. In 2020, the ceiling was set at US\$4 billion.

⁶ Throughout this document reference is made to the US dollar.



development policy financing in the amount of \$200 million to support the government in addressing an unanticipated tax revenue shortfall and expenditure surge resulting from the COVID-19 pandemic of 2020. This Implementation Completion and Results Report (ICR) provides a review of that operation as well.

Table 1: Uzbekistan – Key Macroeconomic Indicators (at Appraisal of parent operation)

	2016	2017	2018	2019	2020	2021
				(Projected)		
National Income and Prices	(Percent, unless otherwise noted)					
Real GDP growth (annual percent change)	6.1	4.5	5.1	5.5	6.0	6.0
Consumer price inflation (end of period)	9.8	18.8	14.3	15.6	12.4	9.1
Real effective exchange rate (levels, 2015=100)	84.3	65.9	60.2	64.6	67.8	72.4
External Accounts	(Current US\$ million, unless otherwise noted)					
Export of goods, of which	8,581	9,512	10,939	11,925	12,350	12,951
<i>Gold</i>	2,808	3,260	2,910	3,755	3,861	3,972
Merchandise imports, of which	11,154	12,501	17,679	19,658	20,446	21,199
<i>Machinery and Equipment</i>	5,018	4,552	7,491	8,797	8,348	7,930
Gross worker remittances	1,200	1,200	1,000	1,200	1,300	1,400
Services Balance	-1,610	-2,053	-2,442	-2,150	-2,011	-1,911
Current account balance (percent of GDP)	0.2	1.2	-6.9	-6.5	-5.6	-4.7
Foreign direct investment, net	1,572	1,263	679	1018	1299	1626
Gross international reserves (US\$ billion)	26.5	28.1	27.1	27.5	27.0	27.6
Gross international reserves (months of import cover)	19.2	14.8	13.0	12.6	12.2	11.3
Gross external debt (percent of GDP)	18.6	34.0	34.4	34.0	33.5	32.1
Consolidated Fiscal Accounts	(Percent of GDP, unless otherwise noted)					
Revenues	25.4	24.7	27.9	25.4	25.4	25.6
Expenditures	23.8	22.9	25.6	24.8	25.0	25.4
Policy-lending	2.1	3.6	4.3	2.2	2.2	2.1
Overall fiscal balance	-0.5	-1.9	-2.1	-1.6	-1.8	-1.8
Total public debt	8.6	20.2	20.6	23.2	24.7	24.6
Monetary Accounts	(Annual percent change)					
Broad money growth	23.5	40.3	14.4	21.0	20.3	18.5
Credit to the economy	28.4	103.0	50.8	25.0	20.2	18.9
Memorandum Items						
Nominal GDP (som trillion)	242	303	408	523	642	760

Source: DPO Report No: PGD62

At appraisal of the parent operation, a key macroeconomic challenge lay in asserting a prudent fiscal stance, particularly so at the appraisal of the supplementary operation, when fiscal imbalances had been aggravated by pandemic-related effects. During the supplementary operation, the fiscal balance was projected to deteriorate over the medium-term. Although directed lending to the state-owned enterprises was projected to decline, it remained a source of significant risk (Table 2). In the face of high inflation, a medium-term tightening of monetary policy was necessary; the requirements for effective inflation targeting could be expected to improve as banking and government debt markets were further developed. These reforms would deepen domestic markets and reduce dollarization, which stood at 45 percent of deposits in June 2020⁷, thereby assisting with the task of managing a

⁷ See <https://cbu.uz/en/statistics/bankstats/526102/>



market-determined exchange rate. The principal structural agenda continues to lie in creating contestability for private markets by reducing the privileges of state-owned enterprises and their share of the domestic economy and correcting remaining price anomalies by cost-recovery policies. Greater flexibility in land and labor markets was a pre-condition for efficiency as was an agriculture sector free from directives. At appraisal of the parent operation, the Bank had initiated policy dialogue with the authorities on the development of a further set of DPOs that would provide support for second-generation reforms, inevitably tougher to implement.

Table 2: Uzbekistan – Key Macroeconomic Indicators (at Appraisal of supplementary operation)⁸

	2017	2018	2019	2020 PC*	2020 (Projected)	2021 (Projected)	2022 (Projected)
National Income and Prices							
Real GDP growth (annual percent change)	4.5	5.4	5.6	5.9	1.6	7.0	6.0
Real per capita GDP growth (annual percent change)	3.2	4.1	4.4	4.5	0.0	5.4	4.4
Consumer price inflation (end of period)	18.8	14.3	15.2	12.4	15.8	9.1	8.0
External Accounts							
Export of goods, of which	10,162	11,386	13,899	15,690	12,517	14,265	16,286
<i>Gold</i>	3,260	2,910	4,918	5,162	5,801	5,896	5,957
Merchandise imports, of which	12,377	18,252	21,207	22,758	18,693	22,815	25,340
<i>Machinery and Equipment</i>	4,497	7,529	9,572	10,053	7,595	10,382	11,541
Remittances and other transfers	4,323	4,208	5,455	4,971	2,409	5,679	6,122
Services Balance	-1,842	-2,442	-2,266	-2,258	-1,431	-2,098	-1,950
Current account balance (percent of GDP)	2.5	-7.1	-5.6	-4.7	-8.5	-6.4	-5.4
Foreign direct investment, net	1,788	623	2,284	1,534	995	1,848	1,825
Gross international reserves (US\$ billion)	28.1	27.1	29.2	29.0	26.7	25.1	24.5
Gross international reserves (months of import cover)	14.4	12.2	14.0	11.7	11.0	9.5	8.4
Gross external debt (percent of GDP)	34.1	34.3	43.5	37.0	44.7	45.1	45.1
Consolidated Fiscal Accounts							
Revenues	24.7	27.8	28.2	24.0	23.2	26.1	26.1
Expenditures	23.4	26.0	28.2	25.3	27.2	26.1	26.1
Budget Fiscal Balance	1.3	1.8	0.0	-1.3	-4.0	-1.3	-0.9
Policy-lending	3.1	4.0	3.9	1.5	1.5	1.8	1.6
Overall fiscal balance	-1.8	-2.2	-3.9	-2.8	-5.5	-3.1	-2.5
Total public debt	20.2	20.4	29.2	25.0	32.7	33.1	33.3
Monetary Accounts							
Broad money growth	41.0	13.2	13.8	27.6	13.8	21.5	22.0
Credit to the economy	103.0	50.8	63.5	28.3	24.0	17.2	13.1
Memorandum Items							
Nominal GDP (som trillion)	303	407	512	642	603	708	833

*PC = Pre-Crisis

Source: DPO Report No: PCBASIC0220322

⁸ There are some inconsistencies between Tables 1 and 2. Historical data are subject to regular revisions due to additional sources of information coming later and continuous methodological adjustments to the compilation and classification of statistics.



Original Program Development Objective(s) (PDO) (as approved)

The Program Development Objectives were to support the government of Uzbekistan in sustaining economic reforms and transition to a market economy by:

1. Increasing the role of markets and the private sector in the economy; and,
2. Enhancing social inclusion

Original Policy Areas/Pillars Supported by the Program (as approved)

Pillar I: Increasing the role of markets and the private sector in the economy

Reforms in this pillar focused on sustaining the market transition in three ways: (a) by further reducing controls that inhibit the formation of competitive markets, (b) by addressing institutional gaps that constrain private sector growth and investment in key sectors, and (c) by supporting the State in moving away from its role as the dominant economic producer and monopolist in key growth sectors.

Pillar II: Enhancing social inclusion

Reforms under the second pillar focused on supporting a more inclusive transition through actions that (a) address constraints to formal job creation and skills development; (b) strengthen safety nets; (c) enhance the voice and participation of citizens in the budget.

B. Significant Changes During Implementation

The COVID pandemic struck the economy a blow thus weakening GDP growth and employment creation and causing deterioration in the country's poverty profile. It required a firm policy response, which was developed on the basis of Bank's advice in line with the Global Crisis Response Framework, and supported by the *Supplementary Financing* operation.⁹ There were no changes to the PDOs, Prior Actions, and Results Indicators. The supplementary operation had a rationale to ensure that the reform gains achieved since 2017, especially in strengthening the central bank autonomy and curtailing directed lending to public enterprises, were not jeopardized during the pandemic and that the long-term benefits of the market transition reforms were prioritized. Moreover, the Government had demonstrated commitment to the reform program by remaining on track and showing strong progress in achieving initial results. The fiscal space created by the supplementary financing helped the Government carry out an exceptional emergency response due to COVID-19, primarily related to higher spending needs in healthcare and social assistance.¹⁰

⁹ Discussed in the context section of this document.

¹⁰ Measures taken by the Government to extend the structural reforms beyond those supported by DPO2 were detailed in the documentation for the Supplementary Financing operation.



II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

Table 3: DPO Prior Actions and Results Indicators

Prior Actions	Results Indicators
Operation Pillar 1: Increasing the role of markets and the private sector in the economy.	
<p>Prior Action 1: To increase agricultural exports and incomes for farmers, the Borrower has (i) removed mandatory pre-payment and minimum export price requirements for horticultural exports, (ii) removed controls on the sale price of shaped bread, and (iii) increased the state farmgate procurement price offered to farmers for the 2019 wheat harvest.</p>	<p>RI 1: An increase in the value of horticultural exports.</p> <p>Baseline: US\$875 million (2018) (US\$886 million; based on the latest release by the Statistics Committee for 2018)</p> <p>Target: US\$960 million (2019)</p> <p>Achieved Actual status: US\$1,2 billion (2019)</p>
<p>Prior Action 2: To reduce market entry barriers and increase competition in domestic trading activity, the Borrower has removed (i) licensing requirements to start and operate wholesale domestic trading and itinerant trading businesses, and (ii) mandatory advance payment requirements for commercial trading transactions between entities whose government ownership is less than 50 percent.</p>	<p>RI 2: Increase in the number of legal entities registered as wholesale trading businesses.</p> <p>Baseline: 12,387 (2017) Target: 13,000 (2020)</p> <p>Achieved Actual status: Based on the proxy indicator for the number of operating enterprises in the trade sector: 63,199 (2017), 132,192 (2020); 182,917 (2022)¹¹</p>
<p>Prior Action 3: To improve financial sector efficiency and stability, the Borrower has submitted a new banking law for Parliamentary approval that gives sufficient powers to the Central Bank of Uzbekistan to conduct effective oversight and</p>	<p>RI 3: Banking sector legislation is in greater compliance with Basel Core Principles.</p> <p>Baseline: Banking sector legislation is non-compliant with the following key Basel Core Principles for Effective Banking Supervision: BCP1, BCP2, BCP5, BCP8, BCP11, BCP19, BCP20 (December 2018)</p>

¹¹ The ICR team had to come up with proxy indicators for RI2 and RI8 due to lack of availability of information on the original indicators.



<p>enforcement, establishes a comprehensive and transparent licensing framework, and strengthens corporate governance and transparency requirements for commercial banks.</p>	<p>Target: Banking sector legislation is in increased compliance with Basel Core Principles for Effective Banking Supervision BCP1, BCP2, BCP5, BCP8, BCP11, BCP19, BCP20 (June 2020).</p> <p>Achieved</p> <p>Uzbekistan adopted a new edition of the laws “On Central Bank” and “On Banks and Banking Activities” in 2019 and continued enhancing the supervisory and regulatory legislation in 2020-2022.</p>
<p>Prior Action 4: To increase private sector investment in the energy sector, the Borrower has taken measures to establish a legal framework for the development of renewable energy and to adopt procurement procedures for the selection of potential renewable energy providers.</p>	<p>RI 4: Competitive tendering of renewable energy projects under the new law.</p> <p>Baseline: 0 (June 2018)</p> <p>Target: The government brings at least 1 RE project to the point of commercial tender announcement. (end-September 2020)</p> <p>Achieved</p> <p>Masdar Nur Navoi Solar Project (Nov 2019)</p>
<p>Prior Action 5: To achieve financial sustainability of energy and water utility companies, the Borrower has adopted a revised tariff methodology, consistent with principles of full cost recovery, for the provision of electricity and cold-water services.</p>	<p>RI 5: Number of end-user electricity and cold-water tariff changes made in accordance with new tariff methodology.</p> <p>Baseline: 0 – Methodology did not exist (December 2018)</p> <p>Target: At least 1 electricity and 1 cold-water end-user tariff amendments are made in accordance with the new methodology. (June 2020)</p> <p>Achieved</p> <p>Actual status:</p> <ul style="list-style-type: none"> • In electricity one end-user tariff change in August 2019 and another one in June 2022; • In water supply average change of tariffs from August 2019 to January 2021: Retail consumers: 103%; state entities: 91%, commercial use: 92%



<p>Prior Action 6: To increase private sector participation in the aviation sector, the Borrower has (i) separated the Borrower’s airline management, airport management, and air traffic control functions, and (ii) separated its policymaking, technical regulatory, and operational functions in the aviation sector.</p>	<p>RI 6: A change in the ownership structure of (i) the national airline, (ii) all airports, (iii) air traffic control services.</p> <p>Baseline: All airports under the sole ownership of NAK (June 2018)</p> <p>Target: Airport ownership separated from NAK into a new entity, and a process is under way to concession at least one airport in Uzbekistan under PPP arrangements following a competitive tender process. (September 2020)</p> <p>Achieved (with delay relating to pandemic-impact) In 2019, NAK was transformed into two independent companies “Uzbekistan Airways” and “Uzbekistan Airports”. In April 2021, the Government initiated the process of PPP concession for Samarkand International Airport.</p>
<p>Prior Action 7: To improve the financial transparency and accountability of State-Owned Enterprises, the Borrower has created a new Agency for the Management of State Assets, reporting to the Prime Minister, to be responsible for the management of state-owned enterprises and the implementation of an open and transparent process for the privatization of state assets.</p>	<p>RI 7: Number of independent financial valuations of State-Owned Enterprises conducted by the Agency for the Management of State Assets in accordance with International Financial Reporting Standards.</p> <p>Baseline: 0 (December 2018) Target: Valuations for Uzbekenergo, Uzbekneftegaz, and at least 5 other SOEs have been completed (June 2020)</p> <p>Achieved Independent financial valuations based on IFRS are completed for energy companies and 5 other SOEs (see table 4 for details).</p>
Operation Pillar 2: Enhancing social inclusion	
<p>Prior Action 8: To encourage firm growth and formal employment, especially of women, the Borrower has adopted a turnover-based definition of small businesses for tax and value-added tax registration purposes.</p>	<p>RI 8: An increase in formal employment as evidenced by the number of private sector employees registered for payroll tax withholding, disaggregated by gender.</p> <p>Baseline: Male: 1,712,893; Female: 1,049,837 (end-December 2018)</p> <p>Target: Male: 1,952,698; Female: 1,207,315 (end-June 2020)</p>



	<p>Achieved Actual status: Based on a proxy indicator for total taxpayers Male: 2,768,000; Female: 2,088,000 (as of the first quarter of 2022)</p>
<p>Prior Action 9: To create better conditions for formal employment in urban areas, especially of women, and enhance labor mobility, the Borrower has removed restrictions limiting employers from hiring workers who do not have a local residence permit (“propiska”).</p>	<p>Same as for PA8.</p>
<p>Prior Action 10: To improve educational standards and increase the quality of the labor force, the Borrower has (i) signed a participation agreement with the OECD to participate in the 2021 PISA, and (ii) created a National Center for International Research on Quality Assurance in Education which, along with the Ministry of Public Education, will be responsible for conducting national standardized and systematic student assessments of educational achievement.</p>	<p>RI 9: An increase in the roll out of standardized systematic national educational assessments.</p> <p>Baseline: No standardized and systematic national assessments in Uzbekistan (2018)</p> <p>Target: A new standardized and systematic national assessment is piloted in at least 2 regions (June 2020)</p> <p>Achieved Uzbekistan conducted the following nationwide tests: EGRA and EGMA (2019), PIRLS (2020), and PISA (2022)</p>
<p>Prior Action 11: To improve the efficiency and effectiveness of social safety nets for low income families, the Borrower has approved the creation and development of a Unified Social Registry of Social Protection</p>	<p>RI 10: An increase in the utilization of the unified social registry system, as evidenced by the number of administrative units that have adopted the unified social registry to process applicants’ registration, beneficiary selection, program enrolment, and payment orders. of social registries:</p> <p>Baseline: 0 - No Unified System in place (December 2018)</p> <p>Target: 10 (September 2020)</p> <p>Achieved The Single Registry for Social Protection was rolled out nationwide since September 2020 and integrates databases of at least 16 ministries and government agencies.</p>



<p>Prior Action 12: To increase fiscal transparency and improve citizen engagement in the budgetary process, the Borrower has required the Ministry of Finance to (i) annually publish citizens budget and budget execution reports, and (ii) ensure that at least ten (10) percent of each municipal district budget is allocated via input from a community-level participatory process, commencing from the 2019 Budget.</p>	<p>RI 11: Publication and availability of citizen budget documents.</p> <p>Baseline: A pilot Citizen Budget document for the 2018 Budget has been published and is available on the Ministry of Finance Website (November 2018)</p> <p>Target: Citizen Budget documents for the 2019 and 2020 Budgets have been published and available on the Ministry of Finance Website (June 2020)</p> <p>Achieved</p> <p>The Citizen Budget documents are published on the open budget platform of the Ministry of Economy and Finance at https://openbudget.uz/en/publicbudget</p>

Note: A detailed list of sources of information is provided in Annex 4.

A. Relevance of prior actions

Rating: Highly Satisfactory

The operation was aligned with the objectives of the *Country Partnership Framework (CPF)* for FY2016-2020. The CPF was modified by its *Performance and Learning Review* (2018), which was elaborated during the preparation of this DPO. The PLR reflected a sharp shift in the official strategy in the direction of a sustainable transformation towards a market economy, reform of state institutions and service delivery; and building human capital and citizen participation. The DPO contributed to these efforts by supporting growth and macro-financial resilience, increasing the role of markets and the private sector in the economy, as well as enhancing social inclusion. However, the operation did not support reforms from the government strategy on the rule of law and judicial reforms. Further progress in establishing the rule of law, judicial reforms, and improved governance would help to attract investment given the legacy of poor governance and a high degree of corruption. The PDOs and program content remained relevant beyond the original CPF period. They are also aligned with the objectives under the pillars of (i) inclusive private sector employment and (ii) improving human capital of the FY2022-26 CPF.

The twelve prior actions had a strong and direct link to the achievement of the PDOs. The PDOs were realistic and well aligned with the government’s goals as well as those of the CPF and of sufficient strength and specificity to be a credible measure of overall success with the strategic reforms. The results indicators were designed with clear causal linkages to the prior actions, and were appropriate to measure progress on the path to the achievement of the PDOs, although several of them were designed as output, rather than outcome indicators (see the section on efficacy).



Pillar I: Increasing the role of markets and the private sector in the economy

Reforms under the first pillar were selected with the aim of addressing key barriers to expanding private sector participation in the economy. Expanding the freedom to farm and reducing the role of the state in dictating quantities and prices for farmers have been the linchpin of reforms. Expanded horticultural exports and improvements in the wheat procurement price would help boost output, farm productivity, investment, and employment in the farm sector. The reduction in barriers in domestic trading would importantly assist the growth of small businesses. Banking sector reforms were intended to steer the economy towards improved private sector access to finance within a modernized sector regulated through Basel-compliant principles. Finally, utility sector reforms were intended to pave the way for private participation, notably in renewable energy investments and more broadly in energy, water, and aviation sectors through tariff or institutional reforms, and eventually to SOE privatization.

This pillar also supported the move towards a green economy. The shift to horticulture from wheat generated climate co-benefits both in mitigation and adaptation, notably through raised water use efficiency and reduced emissions as a result of drip irrigation and simultaneous fertilization. The shift towards renewables in generation was an important step in mitigation. The tariff adjustment in public utilities has contributed to climate co-benefits through more efficient use of resources.

All prior actions of the pillar were fundamentally relevant to the attainment of the PDOs. They were furthermore appropriate and of sufficient strength to accomplish the changes in policies and institutions necessary for the attainment of the objectives.

- The *agricultural reforms* expanded the role of markets and private farmers and slashed the interference of the state in dictating crop quantities and prices, thereby establishing the freedom to farm; at the same time the procurement price of wheat was brought close to international levels.
- The weakening of *market entry barriers* and increased competition achieved through prior actions on licensing of businesses and reductions in advance payments directly raised private participation in trading and liberalized markets; the results indicator appropriately measured new businesses created.
- Actions to strengthen *banking supervision* led to enhanced stability and created a sounder basis for lending to private enterprises and greater public confidence in the system; the results indicator measured progress in supervision directly through the use of Basel core principles (BCP).
- Actions on establishing a framework for *renewable energy* with supporting procurement procedures and the adoption of a good practice methodology for *tariff-setting* in electricity and cold water had impacts on private participation in energy and in reducing price distortions; both captured through results indicators.
- In the *aviation* sector, actions to unbundle and improve policy making, regulation and operations were fundamental to creating competitive markets and private entry in management and services, with the results indicator providing a direct measurement of progress.
- Finally, in a highly significant step towards a private sector-driven market economy, the *management of SOEs* and implementation of privatization, with transparent accounting being a first step, was entrusted to a new agency for the management of state assets; progress towards achieving the PDO was measured by the obtaining of valuations for major SOEs.



Pillar II: Enhancing social inclusion

Reforms under the second pillar addressed the key barriers to raising social inclusion. Growth in formal employment, especially for women was constrained by restrictions on labor mobility and by a tax regime that discouraged firm scale and imposed high tax compliance costs; therefore, removal of restrictions on local residence permits, improvements in tax administration, and a reduced tax burden on wage earners and businesses were achieved. Participation in PISA and the adoption of national standardized and systematic assessments of pupils was a first step towards raising education quality. The establishment of a unified social registry for social protection would lead to benefit consolidation and improved targeting. Finally, the engagement of citizens at the local level in budgets has raised fiscal transparency.

All prior actions under pillar II were relevant for supporting the PDOs.

- The redefinition of the basis for *small business taxation* promoted inclusion by driving up small business formation and growth as well as formal employment, especially for women; the results indicator measured new formal employment.
- The prior action on the removal of *residency requirements* for employment (the *propiska*) – a legacy from the Soviet system -- was a seminal achievement that enhanced labor mobility, with a disproportionately beneficial impact on women.¹²
- Enrollment in PISA and the establishment of national quality standards and supporting institutions in *education* would raise quality and better direct remedial action – all to the benefit of inclusion.
- Similarly, the action on the creation of a *unified social register* for social assistance and insurance benefits would promote inclusion through sharper targeting, greater coverage of the poor, and make possible raised benefits.
- Finally, citizen engagement in *local budgeting* with some devolution of powers to the local level was expected to promote social inclusion.

B. Achievement of Objectives (Efficacy)

Rating: Satisfactory

The targets for all, except one, result indicators in the operation were achieved according to the specified timeframe. The results indicators were soundly formulated, and in all cases, they captured the likely impact of the prior actions. Some targets were ambitious, judged by the experiences of other reforming countries, but Uzbekistan was generally making an exceptionally strong reform effort. However, several result indicators were designed so as to capture the *outputs* of the implementation of prior actions (RI2; RI3; RI5; RI6; RI9; RI10; RI11). They were insufficiently focused on genuine monitoring of *outcomes* expected during the time frame of the operation, with a view to learning. Moreover, the pro-active use of the Monitoring and Evaluation (M&E) system to anticipate possible implementation impediments and seek solutions has generally not taken place as shown by the lack of data for some indicators during the preparation of the ICR for which proxy indicators had to be used (RI2; RI8). The results indicator on the aviation sector was achieved with a delay due to the COVID-19 crisis that emerged outside the Government's control.

¹² China, despite far-reaching reforms in labor and urbanization, has not been able to shake-off this system (the hukou).



Pillar I: Increasing the role of markets and the private sector in the economy

All, except one, of the results indicators were attained within the time frame of the DPO. The supply response in horticulture exports showed powerfully the effects of price liberalization and market freedom with the target of a 10 per cent rise being comfortably exceeded. In wholesale trading business formation, similarly, the market liberalizing effects were strong with a rise in legal business entities. In the absence of information on the original indicator for wholesale trading companies, the total number of operating enterprises in trade was used as a proxy¹³. The bank supervisory authorities continued to make brisk progress in building knowledge and capacity and followed up the legislative compliance with seven of the Basel Core Principles by initiating the implementation of these principles that strengthened the powers, responsibilities, and functions of supervisors (BCP1, BCP2, BCP5, BCP8, BCP11) and enhanced prudential regulations and requirements for banks (BCP19, BCP20)¹⁴. Following the adoption of the new editions of laws “On Central Bank” and “On Banks and Banking Activities” in November 2019 the authorities continued enhancing the supervisory and regulatory framework of bank licensing (2020), corporate governance (2020), risk management (2020), liquidity risk (2020), large exposures framework (2020), internal audit (2021), asset classification (2021), prudential reporting (2019-2021), and external audit (2022)¹⁵.

In the nexus of utilities and SOE reforms, results were fully achieved: one renewable energy project has been commercially tendered successfully (Masdar 100 MW); the methodology for tariff revisions for electricity and cold water has been adopted and applied to several electricity and water supply adjustments; and financial valuations for the state electricity and gas companies as well as for five other SOEs have been completed¹⁶. These were all ambitious undertakings, and in the history of the post-Soviet transition, these achievements can be described as impressive.¹⁷ However, the agenda requires continued attention as, more recently a potential for partial reversal was noted, further to declarations that projects may no longer be competitively tendered¹⁸. Moreover, according to International Energy Agency (IEA) estimates, fossil fuel consumption subsidies in Uzbekistan represented 6.6 per cent of GDP in 2020 - among the highest of 5 emerging economies surveyed¹⁹. Gas and electricity consumption subsidies represent the lion’s share of fossil fuel consumption subsidies.

¹³ The ICR team considered the proxy indicator defined as “the number of operating enterprises in the trade sector” the closest indirect estimate to measure the progress for “the number of legal entities registered as wholesale trading businesses” since the original indicator is a subset of the proxy indicator. Moreover, the proxy is about operating businesses, whereas registration does not always imply that the business is active.

¹⁴ Basel Committee on Banking Supervision: Core Principles for Effective Banking Supervision (2012) (<https://www.bis.org/publ/bcbs230.pdf>)

¹⁵ Uzbekistan Financial Sector Reform Project, World Bank, May 2022.

¹⁶ Further to asset revaluation, Uzbekenergo was unbundled into three companies for generation, transmission, and distribution. Likewise, the authorities decided to unbundle Uzbekneftegaz into independent production, service, and transmission companies and divest its non-core assets.

¹⁷ In these and several other areas, Uzbekistan came very late to initiating transition. It took care to learn from the vast experiences of other post-Soviet republics (aided by the formidable WBG knowledge and TA effort).

¹⁸ Press statement by the Minister of Energy, January 26, 2023 (<https://www.gazeta.uz/ru/2023/01/26/energy-plan/>)

¹⁹ IEA, “Uzbekistan 2022, Energy Policy Review”, <https://iea.blob.core.windows.net/assets/0d00581c-dc3c-466f-b0c8-97d25112a6e0/Uzbekistan2022.pdf>. The global energy crisis pushed fossil fuel consumption subsidies to an all-time in 2022, and the estimate increased to 19 per cent of GDP for Uzbekistan (<https://www.iea.org/topics/energy-subsidies>)



In the aviation sector, in 2019, the government (as policymaker and owner) unbundled the public airways corporation into the airline, the airport management authority, and air traffic control, with the regulation responsibility being placed in the Ministry of Transport²⁰. Furthermore, a process has been initiated to award a concession contract to the private sector under PPP arrangements for regional airports and that of Tashkent. The severe blow to the air services industry by the COVID-19 pandemic delayed this process, as it dented private confidence in the airport business, thereby creating an unpropitious climate for concessions.

The Cabinet of Ministers appointed, on April 3, 2021, Uzbekistan Airports Joint-Stock Company as the “Public Partner” to seek a Public Private Partnership (PPP) for Samarkand International Airport²¹. Under direct negotiations, the Government awarded Samarkand International Airport to Air Marakanda LLC, a company incorporated under Uzbek Law. The PPP agreement assumes that Air Marakanda LLC will be only responsible for the construction and management of a new passenger terminal as well as for the management of other airport infrastructure, barring for all airside infrastructure, which remains under the control of Uzbekistan Airports JSC. Works to build a second runway, additional apron space, and a new passenger terminal have been completed at the expense of the public sector. Despite the delay, the target for the results indicator (“Airport ownership separated from NAK into a new entity, and a process is under way to concession at least one airport in Uzbekistan under PPP arrangements following a competitive tender process”) was achieved.

Despite the commendable achievement of results, follow-up actions are necessary to ensure sustainability; indeed, many of them were taken in subsequent DPOs. The abolition of the state order system in cotton and wheat was a milestone achievement. Institutional changes have to be supported by reforms (predominantly promoting contestability) to genuinely create conditions for private sector entry in banking. SOEs reforms and eventual privatization are being carefully prepared, but the difficult task of execution lies ahead. The utility tariff reforms need to be fully rules-based and timetabled. Finally, the institutions in aviation are in place, but the functioning of regulation and management is still to be bedded down, currently, there is a lack of clarity on the division of policy-making and regulatory authority within the government. Moreover, alarmingly, Uzbekistan airport management established a new internal airline, which contradicts the basic principles of civil aviation reform by reverting the separation of airport and airline operations²².

Pillar II: Enhancing social inclusion

The four results indicators were fully met within the time frame of the DPO. The sought-for result in formal employment with particular attention to women was measured using a proxy indicator for total taxpayers, in the absence of information on the original indicator selected²³. Based on the proxy indicator, a significant expansion was achieved, including for women. This was largely the effect of the *propiska* reform aided by the business tax

²⁰ Based on Presidential Decree #5584, November 2018.

²¹ Cabinet of Ministers Resolution #176, April 2021.

²² Association of Private Tourism Agencies of Uzbekistan (<https://www.apta.uz/en/news/538>)

²³ The ICR team considered the proxy indicator defined as “the total number of taxpayers in the payroll fund, disaggregated by gender” the closest indirect estimate to measure the progress for “formal employment as evidenced by the number of private sector employees registered for payroll tax withholding, disaggregated by gender” since the original indicator is a subset of the proxy indicator.



change. In education, standardized and systematic national assessments are in place and have been piloted in more than two regions of the country. The first standardized assessment of learning outcomes in Uzbekistan was conducted in 2019 for the measurement of the country's Human Capital Index 2020²⁴. Thereafter, the National Center for International Studies on the Assessment of the Quality of Education carried out its first-ever large-scale national tests including Early Grade Reading Assessment (EGRA) and Early Grade Math Assessment (EGMA) in 2021²⁵, Progress in International Reading Literacy Study (PIRLS) in 2021²⁶ and Programme for International Student Assessment (PISA) in 2022²⁷. Uzbekistan plans to conduct Trends in International Mathematics and Science Study assessment (TIMSS) and Teaching and Learning International Survey (TALIS) in March-April 2023. At the next stage, it will be important to make use of the information in pedagogical and curriculum decisions and to improve the cooperation between the school testing system and the ministry of education. The unified social registry was established and is in use by more than ten administrative units responsible for processing applicants' registration, beneficiary selection, program enrollment, and payment orders. Following the piloting of the single registry in the Syrdarya region in 2019, it was rolled out nationwide since September 2020²⁸ and integrates databases of at least 16 ministries and government agencies²⁹. Citizen budget documents (including those for 2019 and 2020) are published and available online on the open budget platform of the Ministry of Economy and Finance.

C. Overall Outcome Rating and Justification

Rating: Satisfactory

The overall outcome rating of this DPO is satisfactory. It is derived through the combination of relevance (highly satisfactory) and efficacy (satisfactory) ratings. The efficacy rating takes into account the absence of information on some of the original indicators for which proxy indicators had to be selected. This DPO supported core reforms towards the development of a market economy as well as efforts to promote social inclusion. The objectives of this operation remain highly relevant to both the government and the Bank's engagement in the country. The Bank continued to provide standalone DPOs in each subsequent year, 2020, 2021, and 2022.

III. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

²⁴ Human Capital Project, World Bank

(https://databankfiles.worldbank.org/public/ddpext_download/hci/HCI_2pager_UZB.pdf?cid=GGH_e_hcpexternal_en_ext)

²⁵ USAID and the Ministry of Public Education Disseminate the Results of the National Early Grade Reading and Math Assessments

(<https://uz.usembassy.gov/national-early-grade-reading-and-math-assessments/>)

²⁶ PIRLS 2021 Encyclopedia: Uzbekistan (<https://pirls2021.org/uzbekistan/>)

²⁷ PISA 2022: Uzbekistan (<https://www.oecd.org/pisa/aboutpisa/uzbekistan-pisa.htm>)

²⁸ Based on Presidential Decree #4797, August 2020.

²⁹ Ministry of Finance Press Service (<https://telegra.ph/Ceremoniya-priema-peredachi-informacionnoj-sistemy-Edinyj-reestr-socialnoj-zashchity-03-10>)



The measures supported under the DPO had a beneficial impact on poverty reduction and shared prosperity.

Benefits came through measures to promote a market economy, leading to business and formal employment expansion, especially for women, as shown by the results indicators related to formal employment (RI8). Benefits also came through measures advancing social inclusion through greater labor mobility, skills formation via reformed education policies, and citizen engagement in local budgets. The reforms in agriculture were especially important for their poverty impact though large gains in farm income. Banking sector reforms would lead to greater credit expansion to the private sector and to small and medium size enterprises (SMEs) and improve access to finance. Improvements in the social protection system would target the poor more accurately, make possible raising benefits, and realize efficiency gains through integration of diverse benefits. The *Supplementary Financing* operation noted the threat posed to progress in poverty reduction and inclusion by the impact of the pandemic and appraised the government's countermeasures as appropriate and well targeted. These measures countervailed the projected deterioration in poverty.

B. Environmental, Forests, and Natural Resource Aspects

The environmental and climate mitigation/adaptation co-benefit impacts of the DPO are expected to be mostly positive or neutral. This DPO marked an important departure in targeting climate co-benefits in agriculture and energy and, more broadly, corrected price distortions in electricity and cold-water services, thereby leading to a diminution of the carbon footprint in the economy. The removal of the state order system for farmers would lead to a decrease in air, soil and water pollution and provide opportunities for sustainable agriculture, as well as sustainable water usage and facilitate a shift towards climate adapted (and climate smart) agriculture. The new framework for private investments in renewables is showing encouraging results. The DPO documentation discussed possible adverse environmental impacts of the operation and related remedies. Despite the inclusion of climate co-benefits, there still remains a large agenda in environment for the government to address in the future.

C. Institutional Change/Strengthening

- Some of the prior actions of the DPO included measures that strengthened Government institutions and improved the way policy is conducted: The new banking law, supported by PA 3, strengthened the powers of the Central Bank to conduct effective oversight and enforcement; established a comprehensive and transparent licensing framework; and strengthened corporate governance and transparency requirements for commercial banks.
- PA 6 separated airline management, airport management, and air traffic control functions, and also the Government's policymaking, technical regulatory, and operational functions in the aviation sector.
- PA 7 supported the creation of a new Agency for the Management of State Assets, reporting to the Prime Minister, responsible for the management of state-owned enterprises and the implementation of an open and transparent process for the privatization of state assets.
- PA 10 established a National Center for International Research on Quality Assurance in Education, with responsibilities for conducting national standardized and systematic student assessments of educational achievement.
- PA 11 created a Unified Social Registry of Social Protection under the Ministry of Finance (Ministry of Economy and Finance since 2023) for better efficiency and effectiveness of social safety nets administration for low-income families.

D. Other Unintended Outcomes and Impacts

Not applicable



IV. BANK PERFORMANCE

Rating: Satisfactory

Bank performance is rated Satisfactory as the expected standards in both the preparation and implementation of the operation were met. The Bank played an exceptionally strong role in the design and implementation of the government's program through the DPO. The preparation and implementation speed of the parent and supplementary operations were swift, thus leading to one of the fastest disbursements Bank-wide. Although, as discussed, greater attention to M&E was warranted, this shortcoming did not adversely affect the program in any significant way.

Preparation

The DPO was underpinned by a comprehensive set of WBG knowledge and capacity-building products. They consisted of, notably, the first *Systematic Country Diagnostic* (SCD) and support for the sequencing of the overall reforms towards a market economy provided to the government by the Bank as the key contribution towards the development of the official roadmap, as well as a range of sector-specific policy studies. The latter comprised technical work on a private sector diagnostic, financial sector development and strengthening bank supervision, energy, aviation and SOE reforms, tax system, education and social safety nets. In the absence of an IMF-supported program, the Bank faced heightened responsibility for technical and policy work on the macro economy, which was discharged in close cooperation with Fund staff. Joint Bank-Fund debt sustainability analysis was conducted. A strength of the preparation of analytical and technical assistance (TA) work was the close, intense, and open dialogue with the authorities and the role of a trusted partner played by the Bank team. In ICR discussions, the authorities noted that a cohesive "One Bank" approach in selected areas – SOEs, aviation, privatization and PPPs – has been of particular assistance in the design and implementation of reforms.

The theory of change for the operation was well elaborated in the DPO documentation and results enjoyed strong links to final objectives. However, the Bank could have carried out a thorough, structured assessment of the adequacy of the government's M&E arrangements and provided advice and technical assistance on strengthening; moreover, this operation could have been used to pilot some of the sought-after improvements in the M&E system.

The DPO documentation provided a candid analysis of the major risks faced. The substantial nature of risks on the institutional capacity for implementation and sustainability were noted. The political and governance risk was appropriately stated as substantial. The discussion of mitigating measures contained in the operation was thoughtful, in contrast to DPO1.

The Supplementary Financing operation showed careful preparation. An analysis of the pandemic effects and government measures to support economic activity and safeguard social indicators was conducted. It documented clearly progress with the measures supported by the parent operation, noting that all but one results indicator had been met in the eleven months since the original operation as well as outlining risks.

Implementation

The implementation was greatly assisted by the commitment and expertise of the government team and the close dialogue with the Bank. Indeed, the DPO team was considered by the government to be a think tank



available for frequent formal and informal consultations that could draw on global experience to shape advice. In ICR discussions, the authorities pointed to the commendable role played by the Bank team in stimulating intra-government coordination and decision-making and in building protagonists for reform within the government.

The operation was effectively supervised. Supervision was greatly assisted by the presence of the task manager in the field, and the presence of key sector staff in day-to-day contact with the authorities in the field. These factors eased the thorough supervised of all the components of the operation as a part of continuous advisory and preparatory work for subsequent operations. Policy and implementation advice was presented through just-in-time notes and appropriate TA. Such an approach permitted proactivity and quick response to anticipated or emerging risks and problems during implementation. This intense supervisory process was an important element in maintaining technical excellence and safeguarding government ownership over the program. Bank staff continued to supervise the implementation of the pandemic-related measures as described in the *Supplementary Financing* operation and carried out analysis of the fiscal and macroeconomic impacts that was further documented in subsequent lending and advisory services and analytics (ASA) work.

Monitoring and evaluation (M&E) have concentrated traditionally on implementation of actions and insufficiently on genuine results monitoring with a view to learning. Moreover, the pro-active use of M&E system to anticipate possible problems or implementation impediments and to use feedback loops to seek solutions has generally not taken place. It is a lacuna of both the government program and this DPO that efforts were not made towards developing good practice M&E systems.³⁰ Obtaining data on some result indicators proved also difficult, hampering M&E efforts and learning from the implementation of the DPO.

V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

The depth of commitment of the authorities to the reform strategy, and the strong partnership with the Bank limit risks to the sustainability of the development outcomes already achieved. Although reforms continue to enjoy public support, Uzbekistan is not immune to the risk of social tension. Helping to minimize social risks to the achievement of the PDO, all reforms go through a process of public consultation, and reforms with large poverty and social impact are accompanied by analysis-based mitigation measures, such as social safety net increases. Nationally representative monthly surveys of public sentiment toward reforms that are conducted by the World Bank continue to show that most of the population believes that the country is headed in the right direction. The sustainability of outcomes on business formation, formal employment and labor freedom appears strong, as does the outcomes on agriculture and social inclusion. The recent emphasis on direct tenders in the energy sector has been proposed as a short-term response measure to the recent energy supply crisis due to the harsh winter, and the authorities noted commitment to competitive tenders in the medium to long term.

Implementation and sustainability risks have been moderated by efforts to increase local government autonomy and local ownership of reforms. As lessons from other post-Soviet transformations demonstrate, the risks of elite capture by local and foreign vested interests is also a risk to development outcomes, especially in the context of privatization and government procurement. Finally, regional risks stemming from instability in Afghanistan and from the Russian invasion of Ukraine and associated economic uncertainties, notably a weakening of the Chinese economy, are acquiring prominence.

³⁰ The ICR for the first operation contained a recommendation to this effect; however, that ICR was prepared well after this DPO was designed.



Governance continues to be a critical factor that will eventually play a part in determining the overall success of the reform strategy. Encouragingly, the DPO period has seen growing democratization, greater powers to legislative bodies, and growing demands for accountability by the public, sensitivity to public opinion, and a much greater voice in the polity than ever before. In both official development strategies, 2017-2021 and 2022-2026, the authorities declared enhancing state and public institutions, securing the rule of law, and reform of the judicial system as key objectives. However, there has been limited progress in fleshing out a reform vision in these areas, and no specific plans exist. At the same time, governance has also attracted little diagnostic and knowledge work from the Bank even though experience from transition economies points to the critical importance of strengthening the rule of law and judicial neutrality for stimulating private sector development. Given the poor legacy of the country on governance and the rule of law, attention must turn to these challenges, such that after preparatory work and building a constituency for reform, within the government and civic society, governance and the rule of law reforms are supported through future operations.

VI. LESSONS AND NEXT PHASE

A. Lessons Learned

Build on success. The continued effectiveness of development policy operations in Uzbekistan is owed to strong government ownership, which results from the reform content of the operation being derived from the government's development strategy. The rigor of the prior actions stems from an admirable analytical base and TA extended to the government as well as continuous dialogue on design; implementation is assisted by a joint preemptive approach to possible emerging problems. Clearly, a strong relationship of trust with the borrower has been fundamental to success of the program. These factors will remain important to the future partnership on supporting deep-seated economic and societal reforms.

Leverage Technical Assistance. A key strength of the operation was the solidity, quality, and relevance of the ASA and TA, much of which was funded by the Bank but also by other development partners. Work on the country private sector diagnostic and agriculture reform strategy, competition and SOE policies, banking sector development, TA on energy, aviation, and PPPs by the World Bank Group (WBG) provide to be influential. Work on the tax system, fiscal transparency, living standards and poverty, gender and social protection shaped the social inclusion reforms. These provided the building blocks of reform. Overall strategic guidance was provided by the reform road map developed by the government based on Bank advice.

Seek greater reform pre-commitment in increasingly complex reform terrain. Although cast as a standalone operation, the DPO, like its predecessor, had a strong programmatic character in that it envisaged supporting, through a set of future DPOs, the reform path that had been outlined in the road map. The DPO did not formalize triggers for future operations but indicated the pathways for subsequent measures to be taken under each pillar to optimally advance the reform process in the document. The standalone modality was well judged given the high initial risks associated with the reform and the need for flexibility in the initial stages considering implementation experience. Moreover, although the reform thrust was clear, the precise sequencing remained to be worked out.

Shift attention to governance constraints to reform successfully. The Bank's approach has also emphasized complementary institutional reforms to improve government effectiveness, public accountability, increase fiscal sector transparency, and stronger central and regional parliamentary oversight. The Bank's approach thus far has largely eschewed analytical or diagnostic work on the legal aspects of governance, particularly on issues such as



the rule of law and improving enforcement of contractual and property rights – both vital to building a market economy. This may reflect selectivity but as reforms mature greater Bank engagement in the judicial sector and other legal regulatory reforms is warranted. Uzbekistan’s judicial institutions remain weak by international standards, and these weaknesses could affect the prospects of reform acceptance and success throughout the reform agenda. Given the Bank’s unique strengths across the governance dimensions, it would be important to deepen dialogue and engagement in this area, notwithstanding the involvement of some other donors.

Widen the range of instruments; mainstream M&E systems. As the reform effort moves to more complex tasks (governance, SOEs, state banks), it would be worthwhile to consider a broader range of Bank instruments. DPOs have their strength in design and policy change – both critical in reforms up to now. Forensic attention to implementation that banking or SOE reforms or aspects of judicial/governance reforms need may be better served through Program-for-Results (PforR) operations with carefully designed disbursement-linked indicators predicated on results. The strength of country systems will need to be evaluated. In particular, it is essential that future Bank support be conditioned on modernization of M&E systems in line with international best practices.

Ensure appropriate measurability and data sources for Results Indicators. When designing DPOs and identifying the results framework, it is important to clearly define the description of indicators, the mathematical determination of the amount for nominal values, and data sources for the baseline indicators. This is particularly important for the programmatic series to ensure proper assessment of achievements of the targets in a systematic manner.

B. Next Phase

This standalone operation and its supplemental operation, approved in June 2019 and April 2020, were followed by three further standalone operations that have continued the sequence of reforms started under this operation. During the new CPF for Uzbekistan (2022-26), adopted in May 2022, the use of broad structural DPOs—focusing on continuing market reforms and greater inclusion—is expected to continue anchoring the Bank’s reform engagement and leadership in Uzbekistan.



ANNEX 1. RESULTS FRAMEWORK

RESULTS INDICATORS

Pillar: Pillar 1: Increasing the role of markets and the private sector in the economy

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 1: An increase in the value of horticultural exports.	Amount(USD)	875,000,000.00	960,000,000.00	1,200,000,000.00
		31-Dec-2018	31-Dec-2019	31-Dec-2019

Comments (achievements against targets):

Based on the latest release of data by the Statistical Committee of Uzbekistan, the baseline has been revised from US\$875 million to US\$886 million. The supply response in horticulture exports showed powerfully the effects of price liberalization and market freedom with the target of a 10 per cent rise being comfortably exceeded.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 2: Increase in the number of legal entities registered as wholesale trading businesses.	Number	12,387.00	13,000.00	132,192.00
		31-Dec-2017	31-Dec-2020	31-Dec-2020

Comments (achievements against targets):



In wholesale trading business formation, similarly, the market-liberalizing effects were strong with a rise in legal business entities. In the absence of an indicator for wholesale trading companies, the total number of operating companies in trade was used as a proxy, The indicator increased from 63,199 in 2017 to 132,192 in 2020 and further to 182,917 in 2022. This is a powerful increase compared to the intended target of 5 per cent growth.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 3: Banking sector legislation is in greater compliance with Basel Core Principles	Yes/No	No 31-Dec-2018	Yes 30-Jun-2020	Yes 30-Jun-2020

Comments (achievements against targets):

The bank supervisory authorities continued to make brisk progress in building knowledge and capacity and followed up the legislative compliance with seven of the Basel Core Principles by initiating the implementation of these principles. Uzbekistan adopted a new edition of the laws “On Central Bank” and “On Banks and Banking Activities” in 2019 and continued enhancing the supervisory and regulatory legislation in bank licensing (2020), corporate governance (2020), risk management (2020), liquidity risk (2020), large exposures framework (2020), internal audit (2021), asset classification (2021), prudential reporting (2019-2021), and external audit (2022).

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 4: Competitive tendering of renewable energy projects under the new law.	Number	0.00 30-Jun-2018	1.00 30-Sep-2020	1.00 30-Sep-2020

Comments (achievements against targets):



One renewable energy project has been commercially tendered successfully. In November 2019, Masdar signed a Power Purchase Agreement (PPA) and Government Support Agreement (GSA) with the Government of the Republic of Uzbekistan to design, finance, build and operate the country’s first successfully financed independent-private producer (IPP) solar power plant.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 5: Number of end-user electricity and cold-water tariff changes made in accordance with new tariff methodology.	Number	0.00 31-Dec-2018	1.00 30-Jun-2020	1.00 30-Jun-2020

Comments (achievements against targets):

The methodology for tariff revisions for electricity and cold water has been adopted and applied to several electricity and water supply adjustments. In electricity, one end-user tariff change happened in August 2019 and another one in June 2022. In water supply, average change of tariffs from August 2019 to January 2021 was as following: retail consumers by 103%, state entities by 91%, and commercial use by 92%. These changes are considerable in terms of magnitude, thus suggesting determination of the government to continue adjusting tariffs to cost recovery levels.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 6: A change in the ownership structure of (i) the national airline, (ii) all airports, (iii) air traffic control services.	Number	0.00 30-Jun-2018	1.00 30-Sep-2020	1.00 03-Apr-2021

Comments (achievements against targets):



In 2019, NAK was transformed into two independent companies “Uzbekistan Airways” and “Uzbekistan Airports”. In April 2021, the Government initiated the process of PPP concession for Samarkand International Airport. Due to pandemic and associated disruption to the aviation sector, the RI was achieved with a delay.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 7: Number of independent financial valuations of State-Owned Enterprises conducted by the Agency for the Management of State Assets in accordance with International Financial Reporting Standards.	Number	0.00 31-Dec-2018	7.00 30-Jun-2020	7.00 30-Jun-2020

Comments (achievements against targets):

The financial valuations for the state electricity and oil-gas companies as well as for five other SOEs have been completed. IFRS-based financial valuations for the energy companies and other 5 SOEs are available on the websites.

Pillar: Pillar 2 – Enhancing Social Inclusion

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 8: An increase in formal employment as evidenced by the number of private sector employees registered for	Number	2,762,730.00 31-Dec-2018	3,160,013.00 30-Jun-2020	4,856,000.00 31-Mar-2022



payroll tax withholding, disaggregated by gender.				
Male	Number	1,712,893.00 31-Dec-2018	1,952,698.00 30-Jun-2020	2,768,000.00 31-Mar-2022
Female	Number	1,049,837.00 31-Dec-2018	1,207,315.00 30-Jun-2020	2,088,000.00 31-Mar-2022

Comments (achievements against targets):

The sought-for result in private sector formal employment with particular attention to women was measured using a proxy indicator, in the absence of information on the original indicator selected. Based on the proxy indicator, a significant expansion was achieved, including for women.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 9: An increase in the roll out of standardized systematic national educational assessments.	Number	0.00 31-Dec-2018	2.00 30-Jun-2020	2.00 30-Jun-2020

Comments (achievements against targets):

In education, standardized and systematic national assessments are in place and have been piloted in more than two regions of the country. Uzbekistan conducted the following nationwide tests: EGRA and EGMA (2019), PIRLS (2020), and PISA (2022).



Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 10: An increase in the utilization of the unified social registry system, as evidenced by the number of administrative units that have adopted the unified social registry to process applicants' reg	Number	0.00 31-Dec-2018	10.00 30-Sep-2020	10.00 30-Sep-2020

Comments (achievements against targets):

The unified social registry was established and is in use by more than ten administrative units responsible for processing applicants' registration, beneficiary selection, program enrollment, and payment orders. The single registry for social protection was rolled out nationwide since September 2020 and integrates databases of at least 16 ministries and government agencies.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
RI 11: Publication and availability of citizen budget documents.	Yes/No	No 30-Nov-2018	Yes 30-Jun-2020	Yes 30-Jun-2020

Comments (achievements against targets):

Citizen budget documents (including those for 2019 and 2020) are published and available on the ministry of economy and finance's open budget platform.





ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Vinayakraj Nagaraj	Task Team Leader(s)
Fasliddin Rakhimov	Procurement Specialist(s)
Elbek Yusupov	Financial Management Specialist
Arman Vatyan	Financial Management Specialist
Djamshid Iriskulov	Financial Management Specialist
Manuel Salazar	Team Member
Ayesha Y. Vawda	Team Member
Eva M. Gutierrez	Team Member
Ivailo V. Izvorski	Team Member
Lisa Lui	Counsel
Rajul Awasthi	Team Member
Susanna Hayrapetyan	Team Member
Eskender Trushin	Team Member
Thomas A. Vis	Team Member
Anna Corsi	Team Member
Gayane Minasyan	Environmental Specialist
Stefka Slavova	Team Member
Arcadii Capcelea	Environmental Specialist
Julio E. Revilla	Team Member



Violane Konar-Leacy	Team Member
Irina Nizamova	Team Member
Zafar Khashimov	Team Member
Sarah Nankya Babirye	Team Member
Jasna Mestnik	Team Member
Sebastian Eckardt	Peer Reviewer
Elena Klementyeva	Team Member
Elvira Anadolu	Team Member
Sergiy Zorya	Team Member
Andrea Mario Dall'Olio	Peer Reviewer
Maddalena Honorati	Team Member
Sevara Melibaeva	Team Member
Vael Zakout	Team Member
Janssen Edelweiss Nunes Fernandes Teixeira	Team Member
Natalia Manuilova	Team Member
Mitsunori Motohashi	Team Member
Tobias Akhtar Haque	Peer Reviewer
Mansur Bustoni	Team Member
Daniel Mario Saslavsky	Team Member
Iqboljon Ahadjonov	Team Member
Daniel Pajank	Peer Reviewer
Nina Rinnerberger	Team Member
David Malcolm Lord	Team Member
Nisso Makhmudovna Babakulova	Team Member



Gillian Ann Cerbu	Environmental Specialist
Adeliya Zhunussova	Team Member
William Hutchins Seitz	Team Member
Lee Burns	Team Member
Michael Joseph Ferrantino	Team Member
Rano Nuritdinova	Team Member
Shakhnoza Ayupova	Team Member
Mirzobek Ibragimov	Team Member
Maksudjon Safarov	Team Member
Vicky Chemutai	Team Member
Inoyathon Sadikova	Team Member
Kakhramon Yusupov	Team Member
Yuriy Sarukhanyan	Team Member
Habib Nasser Rab	Peer Reviewer
Patricio V. Marquez	Team Member
Supervision/ICR	
Vinayakraj Nagaraj, Bakhrom Ziyaev	Task Team Leader(s)
Nurbek Kurmanaliev, Fasliddin Rakhimov	Procurement Specialist(s)
Elbek Yusupov	Financial Management Specialist
Arman Vatyan	Financial Management Specialist
Djamshid Iriskulov	Financial Management Specialist
Habib Nasser Rab	Peer Reviewer
Janssen Edelweiss Nunes Fernandes Teixeira	Team Member
Natalia Manuilova	Team Member
Mitsunori Motohashi	Team Member
Tobias Akhtar Haque	Peer Reviewer



Mansur Bustoni	Team Member
Daniel Mario Saslavsky	Team Member
Iqboljon Ahadjonov	Team Member
Daniel Pajank	Peer Reviewer
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Susanna Hayrapetyan	Team Member
Eskender Trushin	Team Member



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Zafar Khashimov	Team Member
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Jasna Mestnik	Team Member
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Elena Klementyeva	Team Member
Elvira Anadolu	Team Member
Sergiy Zorya	Team Member
Andrea Mario Dall'Olio	Peer Reviewer
Maddalena Honorati	Team Member
Sevara Melibaeva	Team Member

B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US\$ (including travel and consultant costs)
Preparation		
FY19	55.310	359,964.29
FY20	0	0.00
Total	55.31	359,964.29



Supervision/ICR		
FY20	0	0.00
Total	0.00	0.00



ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS

Borrower Comments

The team collaborated closely with the Government of Uzbekistan in the preparation and finalization of the Implementation Completion and Results Report. While not providing specific comments, the Borrower noted that the financing and advisory services provided in this operation had a substantial impact on achieving progress in fostering sustainable growth through resilient macro-fiscal and financial policies, opening markets for the private sector, and enhancing the social protection system to protect vulnerable groups during the transition period. The supplementary operation had a critical impact on bridging the state budget financing gaps and mitigating the adverse ramifications of COVID-19 on the economy and vulnerable households by ensuring necessary spending. The authorities emphasized high appreciation for the World Bank projects supporting the national development reform agenda and continue to see the Bank as a trusted partner in promoting future reforms while transitioning into the market economy.



ANNEX 4. SUPPORTING DOCUMENTS

1. Links to supporting documents used to prepare the ICR text

- [Basel Committee on Banking Supervision: Core Principles for Effective Banking Supervision \(2012\)](#)
- [Debt Sustainability Analysis, World Bank and IMF \(2019\)](#)
- [Growth and Job Creation in Uzbekistan: An In-Depth Diagnostic, World Bank \(2019\)](#)
- [Performance and Learning Review, World Bank \(2018\)](#)
- [Program Document for Uzbekistan DPO P168280, World Bank \(2019\)](#)
- [Program Document for Uzbekistan DPO P173948, World Bank \(2020\)](#)
- [Uzbekistan Second Agriculture Public Expenditure Review, World Bank \(2021\)](#)
- [Uzbekistan Country Economic Memorandum, World Bank \(2020\)](#)
- [Uzbekistan Country Partnership Framework FY2016-2020, World Bank](#)
- [Uzbekistan Country Partnership Framework FY2022-2026, World Bank](#)
- [Uzbekistan Energy Policy Review, IEA \(2022\)](#)
- [Uzbekistan Financial Sector Reform Project, World Bank, \(2022\)](#)
- [Uzbekistan Public Expenditure Review \(2019\)](#)
- [Uzbekistan Public Expenditure Review \(2022\)](#)
- [Uzbekistan Systematic Country Diagnostic, World Bank \(2016\)](#)
- [Uzbekistan's Transition to Inflation Targeting, IMF \(2022\)](#)

2. Information and data sources for result indicator measurements:

- RI1, and RI2: Information on agriculture exports, and trading businesses are regularly published on the official website of the Statistics Committee of the Republic of Uzbekistan (<https://stat.uz/en/>).
- RI3: Relevant laws and legislative acts are available on the official website of the Central Bank of Uzbekistan (<https://cbu.uz/en/>).
- RI4: The official Public Private Partnership Development Agency's website holds a registry of all PPP projects (<https://www.pppda.uz/en/>). Information on this RI can also be found on the official website of the private sector partner (<https://masdar.ae/en/Masdar-Clean-Energy/Projects/100MW-Nur-Navoi-Solar-Project>).
- RI5: Information provided by the relevant World Bank Global Practices working on energy and water projects.
- RI6: The relevant Presidential Decree #5584 is available on the National Database of Legislation of the Republic of Uzbekistan (<https://lex.uz/>), and Uzbekistan Airways had a press release (<https://telegra.ph/Zavershilas-restrukturizaciya-NAK-Uzbekiston-havo-jullari-11-11>). The Cabinet of Ministers Resolution #176 on PPP concessions is not in the public domain and information was verified by the World Bank staff.
- RI7: The Ministry of Economy and Finance and the State Asset Management Agency confirmed the implementation of IFRS-based financial valuations for relevant SOEs and they are accessible through the official websites of the enterprises (see table 4). Presidential Decrees #4249 and #4388 are available on the National Database of Legislation of the Republic of Uzbekistan (<https://lex.uz/>)
- RI8: Information on taxpayers disaggregated by gender was provided directly by the Ministry of Economy and Finance of the Republic of Uzbekistan.
- RI9: Relevant evidence is available at the following websites:
 - National Center for International Studies on the Assessment of the Quality of Education (<https://tsbm.uz/en/>)
 - Early Grade Reading Barometer (<https://earlygradereadingbarometer.org/results/Uzbekistan/2021>)
 - US Embassy in Uzbekistan (<https://uz.usembassy.gov/national-early-grade-reading-and-math-assessments/>)
 - Progress in International Reading Literacy Study (<https://pirls2021.org/uzbekistan/>)



- Programme for International Student Assessment (<https://www.oecd.org/pisa/aboutpisa/uzbekistan-pisa.htm>)
- RI10: The relevant Cabinet of Ministers Decree #308 and Presidential Decree # 4797 are available on the National Database of Legislation of the Republic of Uzbekistan (<https://lex.uz/>). The Ministry of Economy and Finance had a press release in this regard (<https://telegra.ph/Ceremoniya-priema-peredachi-informacionnoj-sistemy-Edinyj-reestr-socialnoj-zashchity-03-10>) and information confirmed during the mission.
- RI11: Information on the Citizen’s Budget is available through the open budget platform of the Ministry of Economy and Finance at <https://openbudget.uz/en/>.

Table 4: Selected Financial Statements for Large SOEs based on IFRS

<u>Electricity</u>
Thermal Power Plants (Electricity Generation; formerly part of Uzbekenergo): https://tpp.uz/ru/page/auditorskie-zhaklyucheniya
National Electric Grid of Uzbekistan (Electricity Transmission; formerly part of Uzbekenergo): https://www.uzbekistonmet.uz/en/lists/category/37
Regional Electric Grid of Uzbekistan (Electricity Distribution; formerly part of Uzbekenergo): https://www.het.uz/ru/lists/view/1711
<u>Oil and Gas</u>
Uzbekneftegaz (Oil and Gas Production): https://www.ung.uz/shareholders/reports/11/sub/30/1
Uztransgaz (Gas Transmission; formerly part of Uzbekneftegaz): https://www.utg.uz/ru/invest/otchety/
Hudutgaztaminot (Gas Distribution; formerly part of Uzbekneftegaz): https://hududgaz.uz/page?m=91
<u>Water Supply and Sewerage</u>
Uzsuvtaminot: https://uzsuv.uz/ru/audit-hisoboti
<u>Finance</u>
Uzbekistan Commodity Exchange: https://uzex.uz/ru/pages/External-audit-results
Toshkent Republican Stock Exchange: https://uzse.uz/abouts/financial_reports
Uzagrosugurta (Insurance): https://www.agros.uz/ru/investors/
<u>Information and Communications Technology</u>
Uzbekiston Pochtasi (Postal Service): https://pochta.uz/ru/informatsiya-dlya-aktsionerov-i-investorov/godovye-otchety.html
<u>Chemicals</u>
Navoiyazot: https://navoiyazot.uz/ru/auditors