



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Sep-2022 | Report No: PIDC34655



BASIC INFORMATION

A. Basic Project Data

Country Uzbekistan	Project ID P179007	Project Name Advancing Uzbekistan's Economic and Social Transformation Development Policy Operation (P179007)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Nov 18, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Uzbekistan	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

To support Uzbekistan's transition to an inclusive and private-sector led market economy through (a) strengthening market institutions and the environment for private sector growth; (b) improving state-owned enterprise management; and (c) increasing social inclusion and resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	750.00
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DETAILS

Total World Bank Group Financing	750.00
World Bank Lending	750.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Uzbekistan continues to make good progress in its market transition as it enters a seventh year of reforms. Since late



2016, Uzbekistan has implemented wide-reaching economic and social reforms. Most prices have been liberalized. Foreign exchange is now fully convertible for current account needs, and efforts are under way to ease capital account restrictions. An overhaul of the tax and regulatory system has substantially lowered barriers that favored state enterprises and suppressed private sector development. State-directed lending at interest rates below the official monetary policy rate has largely ended, and credit to the economy has slowed to more sustainable levels. Reforms to liberalize horticultural exports and improve cotton and wheat policies have continued to propel strong agricultural output and productivity improvements. These reforms, which have been supported through successive DPOs, contributed to record increases in new business and taxpayer registrations, horticultural exports, and tourist arrivals prior to the COVID-19 pandemic. They have continued to help Uzbekistan maintain economic growth despite the impact of the pandemic and amidst heightened uncertainties from the conflict in Ukraine. Crucially, they have supported visible improvements to the lives of citizens: poverty rates are lower, incomes of the bottom 40 percent are considerably higher, and economic freedoms continue to expand. Importantly, the reforms have also supported a shift in government policies: issues such as poverty, gender equality, environmental stresses, and the impact of climate change are now the principal focus of the government's medium-term reform program.

The reforms continue to enjoy broad public and political support. Recent data from the Listening to Citizens of Uzbekistan project—a nationally representative survey conducted by the World Bank to monitor reform sentiment—shows that in August 2022 over 85 percent of those surveyed said that they believed the government was engaging in open dialogue with citizens on reform. A strong anti-crisis response during the pandemic, steady expansions in social safety nets, and a strong focus on economic and social inclusion as part of the market transition has continued to fortify public support for reforms. The government's new 2022-2026 National Development Strategy (NDS) builds on the successful completion of the 2017-2021 Development Strategy and renews the government's commitment to the economic transition. The NDS is also being supported extensively by bilateral and multilateral development partners.

Despite the significant uncertainties Uzbekistan faces from the conflict in Ukraine, the government remains firm in its resolve to continue with the implementation of reforms. Having faced down an unprecedented shock from the COVID-19 pandemic, Uzbekistan again finds itself facing significant policy uncertainties—this time from the conflict in Ukraine. The combination of Russia's sharp economic contraction, higher global food prices, and tightening global financial market conditions and investor appetite are likely to slow growth, erode household well-being, and increase financing costs for the government. Despite these challenges, the government maintained the view that its longer-term prosperity continues to depend on the effectiveness of the ongoing market transition. Land, labor, and capital continue to be misallocated in the absence of efficient markets for these critical inputs. A stronger private sector is emerging following years of reforms to support private sector growth, but state-owned enterprises continue to dominate and monopolize many sectors of the economy that are ripe for competition and private sector entry. Gaps remain in health, education, and social safety net systems, and in the inclusion of women, youth, and disabled persons in the economy. The government remains focused on addressing these challenges despite the heightened uncertainties it faces, and on achieving its twin NDS goals of halving the poverty rate by 2026 and achieving upper-middle income status by 2030.

The proposed operation is supported by an adequate macroeconomic policy framework and continued political and public support for the reforms. Uzbekistan faces economic risks including continued global supply chain disruptions, further external shocks impacting domestic economic performance; and adverse weather conditions that affect agricultural output. But despite significant macroeconomic headwinds in recent months, strong fiscal and external buffers put the country in good stead to weather any potential new shock. A pandemic-induced rise in the fiscal deficit has begun to moderate and the deficit is expected to fall further over the medium-term through further fiscal consolidation and improved revenue collections. Though the current account deficit will remain elevated, short-term risks are mitigated by healthy external buffers and continued access to concessional and non-concessional financing.



Longer-term risks are mitigated by the focus of reforms on increasing export-led growth and improving the environment for foreign direct investment. Public debt is projected to stabilize at a modest level of about 35 percent of GDP over the medium-term. Slowing credit growth and improving monetary policy transmission are continuing to help contain domestic sources of inflation risks and reduce risks to the financial system at a critical point in the financial sector and SOE reform and privatization process.

Relationship to CPF

This proposed operation is fully consistent with the focus areas of the 2022-2026 CPF. All three pillars of the PDO are consistent with the first high-level outcome of the CPF on increasing inclusive private sector employment—specifically Objective 1.1 on expanding competitive access to markets, Objective 1.2 on enabling private sector growth and investment, and Objective 1.4 on improving infrastructure for competitiveness and connectivity. Additionally, the third pillar of the PDO is consistent with the second high-level outcome of the CPF on improving human capital—specifically Objective 2.3 which aims to expand social protection coverage and improve inclusive labor market policies. Finally, the actions relating to energy sector reform are consistent with the third high-level outcome of the CPF, relating to improved livelihoods and resilience through greener growth, specifically Objective 3.1 on decarbonization and greener development of industry and the economy.

A wide range of World Bank operational, analytical, and policy engagements has contributed to this operation. These include: (i) a recent SCD, Country Economic Memorandum and two public expenditure reviews (one of which is forthcoming); (ii) analytical projects in the energy sectors supporting institutional and regulatory reforms of the electricity and gas sectors; (iii) implementation support for the Institutional Building Loan Project to improve fiscal transparency and risk management, and support the SOE reform process; (iv) implementation support for Strengthening the Social Protection System in Uzbekistan project which has been the bedrock of World Bank support and engagement on Uzbekistan's substantial overhaul of the social safety net system; (v) the Listening to the Citizens of Uzbekistan survey, and (vi) an IFC Country Private Sector Diagnostic for Uzbekistan, which has underpinned the World Bank's engagement and support for private-sector focused reforms that maximize financing for development in the telecommunications sector.

C. Proposed Development Objective(s)

To support Uzbekistan's transition to an inclusive and private-sector led market economy through (a) strengthening market institutions and the environment for private sector growth; (b) improving state-owned enterprise management; and (c) increasing social inclusion and resilience.

Key Results

Consistent with the government's reform priorities, measures in the proposed operation are intended to support Uzbekistan's transition to an inclusive and private sector-led market. Under the first pillar, the operation supports measures to establish a robust legal framework for privatization, increase private sector participation in Uzbekistan's high-potential telecommunications sector, deepen non-bank financial markets, and increase the market-orientation of the energy sector. Under the second pillar, the operation supports measures to restrict SOEs from non-core business activity expansions, reduce fiscal risks arising from SOEs through a new risk management framework, and improve the governance of SOEs. Under the third pillar, the operation supports measures to improve the efficiency, effectiveness,



and transparency of social safety nets through a new social protection policy, and reform the maternity benefits system for private sector employees.

D. Concept Description

The proposed operation helps advance important reforms that strengthen market institutions and the environment for private sector growth, improve the management and performance of state-owned enterprises, and increase social inclusion. The finalization of privatization legislation is expected to help create more effective conditions for the government to accelerate progress in reducing the state's economic footprint—one of the priorities under the economic pillar of the NDS. The privatization of a mobile telecommunications operator is expected to bring in much-needed private investment into a high-potential enabling sector, increase competition, and expand digital services for consumers. It is also expected to serve as a test case for further privatization in the broader telecommunications sector. The establishment of a new independent energy regulator will strengthen regulatory quality and oversight in the energy sector and improve the environment for further private investments in Uzbekistan's energy market. New measures to curtail SOEs from engaging in non-core business activities; establish more stringent SOE debt and financial discipline; and strengthen supervisory board accountability over SOE performance and financial sustainability are expected to help improve the performance, management, and financial sustainability of SOEs. A new social protection policy will consolidate social protection delivery mechanisms into a single agency, remove administrative discretion, and standardize needs identification in social assistance programs. Measures to transfer maternity pay obligations from the private sector to the state will help address a major source of gender-based employment discrimination and reduce disadvantages prior practices entailed for private sector employers.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Actions in this operation are still being assessed for their poverty and social impacts. A preliminary analysis suggests that three prior actions relating to privatization and energy sector reforms could generate negative poverty, but well-identified mitigation strategies and continued investments in strengthening social protection systems are expected to minimize negative impacts on the poorest households. Over the longer-term, all actions in the operation are likely to generate positive distributional benefits through greater private sector growth and job creation, and from the reduced cost of inefficient public spending.

Environmental, Forests, and Other Natural Resource Aspects

Actions in this operation are still being assessed for their poverty and social impacts. A preliminary analysis suggests that actions are likely to be largely neutral. One action relating to energy sector reforms is likely to generate positive environmental benefits, and one action relating to privatization will require careful monitoring to minimize environmental impact.



CONTACT POINT

World Bank

Vinayakraj Nagaraj, William Hutchins Seitz
Senior Economist

Borrower/Client/Recipient

Republic of Uzbekistan

Implementing Agencies

Ministry of Finance
Odilbek Isakov
Deputy Minister of Finance
oisakov@mf.uz

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Vinayakraj Nagaraj, William Hutchins Seitz
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Approved By

Country Director:	Tatiana A. Proskuryakova	23-Sep-2022
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