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INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY ASSISTANCE STRATEGY

FOR

THE REPUBLIC OF UZBEKISTAN

FOR THE PERIOD FY08-FY11

May 14, 2008

Central Asia Country Unit
Europe and Central Asia Region

The International Finance Corporation
IFC Department for Southern Europe and Central Asia

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CURRENCY EQUIVALENTS

(as of April 25, 2008)

Currency Unit = Uzbekistan Sum
US\$1 = 1303.92 Sum FISCAL YEAR

(January 1 to December 31)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	JICA	Japanese International Cooperation Agency
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	KfW	Kreditanstalt für Wiederaufbau
CAREC	Central Asia Regional Economic Cooperation	LSA	Living Standards Assessment
CAS	Country Assistance Strategy	NGOs	Non-governmental Organizations
CBU	Central Bank of Uzbekistan	MDGs	Millennium Development Goals
CIS	Commonwealth of Independent States	MIGA	Multilateral Investment Guarantee Agency
EBRD	European Bank for Reconstruction and Development	OECD	Organization for Economic Co-operation and Development
EITI	Extractive Industries Transparency Initiative	OSCE	Organization for Security and Co-operation in Europe
ESW	Economic and Sector Work	PEFA	Public Expenditure & Financial Accountability
EU	European Union	POPs	Persistent Organic Pollutants
EurASEC	Eurasian Economic Community	PPP	Purchasing Power Parity
FDI	Foreign Direct Investment	PRSP	Poverty Reduction Strategy Paper
FSU	Former Soviet Union	SDC	Swiss Development Corporation
GDP	Gross Domestic Product	SECO	Swiss State Secretariat for Economic Affairs
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)	ShoS	Shanghai Organization for Security
HBS	Household Budget Survey	SME	Small and Medium Enterprise
IBRD	International Bank for Reconstruction and Development	UN	United Nations
ICARDA	International Centre for Agricultural Research in the Dry Areas	UNDP	United Nations Development Programme
IDA	International Development Association	UNFPA	United Nations Population Fund
IDF	Institutional Development Fund	UNICEF	United Nations Children's Fund
IFC	International Finance Corporation	UNODC	United Nations Office on Drugs and Crime
IFIs	International Financial Institutions	USAID	United States Agency for International Development
IMF	International Monetary Fund	WBG	World Bank Group
ISN	Interim Strategy Note	WHO	World Health Organization
IWMI	International Water Management Institute	WIS	Welfare Improvement Strategy
JETRO	Japanese Trade & Industry Organization		

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REPUBLIC OF UZBEKISTAN
COUNTRY ASSISTANCE STRATEGY

EXECUTIVE SUMMARY

i. The Government of Uzbekistan has been following a gradual approach to economic reform to minimize the social costs of transition. Market-oriented reforms have been slow and selective and focused on a few areas (e.g., current account convertibility, adjustment of energy prices, privatization through lease-holding of collective farms, gradual improvement in business environment and modernization of the treasury). In recent years, the Government improved its macroeconomic performance and significantly diversified exports. While the development model adopted by Uzbekistan has brought benefits, it has also had opportunity costs, as evidenced by the slow reduction of poverty and lower improvement in living standards than in reforming Commonwealth of Independent States (CIS) countries. Constraints on the growth potential of the private sector have dampened job creation, at a rate below the growth of the working age population. In response to this challenge, the Government approved its first Poverty Reduction Strategy paper (PRSP) – the Welfare Improvement Strategy (WIS)¹ - in September of 2007. The WIS is a comprehensive framework to sustain high growth and address poverty and living standards issues. The strategy is built on the policy of granting a greater role to market principles within a gradualist approach to structural reforms.

ii. Of the four key commitments which the Government made to the Interim Strategy Note (ISN), three were carried out (maintaining macro stability, improving portfolio performance, and preparing the WIS) and the remaining one (timely access to data) was carried out partially. The quality of the working relationship between the Bank and the authorities has improved and productive relationships have been established in a number of key areas, including some aspects of Governance, where the authorities have cooperated with the Bank under the Primary Health Care sector Governance Assessment, which opened up significant opportunities for engagement and dialogue in this area. The authorities have also been willing to allow significant elements of citizens' voice and participation during the design and implementation of the projects. A particularly notable example of this (and a radical departure from previous practice) is the introduction of public sector accountability mechanisms by stakeholders through the activation of school boards in the Basic Education project.

iii. Key Government commitments made to the ISN in support of private sector development were carried out. The International Finance Corporation (IFC) SME Survey has been continued, in the framework of business enabling environment (BEE) work and for further legal and regulatory reforms to establish a better framework for microfinance and mortgage lending. IFC has continued to maintain a good working relationship with its Government counterparts which resulted in the development of significant legislative

¹ The WIS and the associated JSAN was discussed by the Board on January 24, 2008 (Report No 41799-UZ).

and procedural improvements in the business environment, including in streamlined registration, permits, inspections, business liquidation and tax reporting procedures that are expected to free up US\$45 million for the SME sector. These reforms enabled Uzbekistan to improve its “Doing Business” rating by seven places.

iv. This Country Assistance Strategy (CAS), rooted in Uzbekistan’s own vision (the WIS), sets out the planned lending and advisory support to the country from the World Bank Group (WBG) over the period FY08-11. The new CAS will rely both on the implementation of ongoing WBG projects and the development of technical assistance and new lending. Six Bank projects in the current portfolio will continue during the CAS period. These are concentrated in key areas of support for human development: improved access to safe water, improved health status, improved incomes in rural areas, and protection of the environment. The average annual International Development Association (IDA) allocation to Uzbekistan was approximately US\$77 million over the last three years (IDA 14). The indicative 3-year allocation for the IDA 15 period corresponding to that of the CAS is SDR 195 million, with final allocation for the Fiscal Years 2010 and 2011 determined annually through the IDA Performance Based Allocation (PBA) system. New IDA lending of about 2-3 projects per year will continue to focus on the development of economic opportunities in rural areas, where the majority of the poor live; on improving delivery of basic municipal services as well as reforms in health and education; promoting sound environmental management, regional development and the contribution of Uzbekistan to the provision of global goods. The size of the projects will be determined based on the overall IDA envelope available. IFC will continue its active engagement in advisory services in the areas of BEE and financial sector development; provide funding and advisory services to support financial intermediation to micro and small business enterprises, particularly in rural areas in collaboration with IDA; increase its direct lending to SMEs; and seek opportunities to finance and provide advisory services to support energy and infrastructure development with private sector participation.

v. The CAS is built around a dual track approach, where in addition to the core program, the WBG will focus its analytic work on key areas to increase consensus with the authorities. The advisory program will be focused on enhancing the environment for shared growth, including through promoting good governance and assistance in implementation of the WIS; as well as selected demand-driven analytical and capacity-building support in priority sectors, including activities to promote regional cooperation. A CAS monitoring framework has been built around an explicit results framework (Annex 1) of existing and currently planned activities. The evaluation of progress against these results will take place in the mid-term review. In the event of significant progress in key areas, and project proposals consistent with the CAS strategy, additional activities outside of the core program may be supported by the WBG.

vi. The present CAS faces four critical risks: (i) *Fiduciary risks* which are rated as high due to weak Public Finance Management (PFM) capacity and accountability mechanisms, and lack of transparency particularly in procurement. To mitigate this risk, the WBG will assure that adequate resources are allocated to fiduciary supervision of projects and project implementation arrangements will seek to strengthen procurement procedures. In addition, financial management arrangements for new projects would

build on the lessons of existing practices, but would be cautious in any move to make use of country systems, and focus rather on the improvement of transparency and accountability at a sectoral and project level; (ii) *Development effectiveness*. To ensure the development effectiveness of the proposed program, all projects are assessed through a results framework and by beneficiary monitoring. The WBG will closely monitor the CAS implementation, and in case of adverse developments, will reassess the level and focus of its engagement; (iii) *Exogenous risks*. These include possible regional tensions over water and energy, reduction in regional growth rates or reductions in flows of remittances or commodity prices, all of which could directly or indirectly affect internal political stability, and security. Managing exogenous risks will require close cooperation with the Government to encourage Uzbekistan's continued international engagement and integration. The above risks, if they materialize, may hinder the country's ability to fully utilize its IDA allocation. Uzbekistan also faces *natural disaster risk*. The current CAS recognizes lessons from past engagement and builds clear linkages to the Disaster Risk Management (DRM) agenda.

vii. Executive Directors may wish to consider the following issues for discussion:

- Do the Directors endorse the strategic approach proposed in the presented CAS?
- Is the proposed program sufficiently aligned with the country's own strategy?
- Is the level of engagement adequate to address the developmental challenges?

I. INTRODUCTION

1. **The proposed Country Assistance Strategy (CAS) builds on the experience of three previous CAS's and intensive dialogue during the Interim Strategy period.** The previous CAS (FY02-04) expired on June 30, 2004. The level of assistance of that CAS was set at US\$350 million over three years, half International Bank for Reconstruction and Development (IBRD) and half International Development Association (IDA) lending. In practice, only US\$100 million was provided for 2 projects. During FY05, the Bank approved a US\$40 million Health project that had been identified in the previous CAS. The Interim Strategy was adopted for FY07-08. It included one lending operation of US\$40 million in Basic Education, the first phase of which was approved by the Board on October 26, 2006. In addition the Avian Flu Influenza project was approved by the Board on May 18, 2007. The new CAS covers the period FY08-11 and provides direction for Bank operations and Economic and Sector Work (ESW) during this period.

2. **Uzbekistan is an upper low income resource rich, doubly-landlocked country, strategically located in the heart of Central Asia.** It is the world's fifth largest cotton producer and second-largest cotton exporter. Major raw materials exports include gold, natural gas, copper and other non-ferrous metals and construction materials. The country possesses a young and educated labor force, rich agricultural resources and has significant economic potential. Uzbekistan accounts for one-third of the region's population, and its economic and social prospects are critical both for the 27 million Uzbeks, and for the neighboring region comprising of Afghanistan, Kazakhstan, Kyrgyz Republic, Tajikistan and Turkmenistan.

3. **During the Soviet era, increasing cotton production in conditions that lacked incentives for sustainable agricultural practices led to the massive expansion of irrigated lands, overuse and unbalanced application of agrochemicals and the depletion of water resources.** This has severely degraded the quality of large tracts of land and reduced the Aral Sea to almost one-tenth of its original volume. The country seeks to gradually lessen its dependence on primary agriculture while developing its mineral and hydrocarbon potential, further diversify its economy by expanding the share of services and manufacturing in the Gross Domestic Product (GDP) and address serious environmental challenges.

4. **In contrast to the majority of the Commonwealth of Independent States (CIS) countries, Uzbekistan has adopted a gradualist state-led development approach,** in which features of an open-market economy are introduced to the existing command and control system in a step-by-step manner. The guiding principle of reform for the authorities is to reduce the risk of being subject to external influences in the political and economic spheres. This has been manifested through – inter alia – a policy of minimizing public debt, accumulating considerable external reserves and cultivating wheat on irrigated land for food security and self-sufficiency. Adherence to this model is also based on the fundamental belief of Government that this approach is necessary: (i) to first build up Uzbekistan's domestic real sector economy before it can face open competition in the global marketplace with any chance of success; and (ii) to maintain social and political stability in an ethnically heterogeneous and potentially volatile region.

5. **This paradigm has resulted in a gradual economic and a less severe social transition than that experienced in most countries of the CIS.** A policy of high public spending during the transition years has mitigated the impact on human capital and on the quality of infrastructure compared with other countries in the region. Market-oriented reforms have been slow and uneven and progressed only in the areas which matched Government's development model and where support for reforms has prevailed over vested interests (such as the introduction of current account convertibility in 2003, the realignment of energy prices, the privatization through lease-holding of collective farms, the adoption of measures to improve the business environment for small and medium-sized enterprises (SMEs) and the modernization of the treasury). In recent years, the Government also achieved a strong macroeconomic performance. However, in spite of high growth rates achieved in recent years, the cost of the gradualist approach to reform in Uzbekistan was an insufficient utilization of the country's economic potential. The emphasis on large capital intensive projects, many of which were in the public sector, and slow private sector development proved to be insufficient to create the number of jobs required to absorb the growth of the working age population.

II. COUNTRY CONTEXT

A. Political Background, Governance and Civil Society

6. **Uzbekistan has a strong executive system with few checks and balances.** After the break-up of the Soviet Union in 1991, the ruling Communist Party of Uzbekistan was restructured as the People's Democratic Party of Uzbekistan, with Islam Karimov retaining the leadership. A referendum in 1995 extended President Karimov's term of office until 2000. He was re-elected to the presidency in 2000 and in December 2007. The Organization for Security and Co-operation in Europe (OSCE) has criticized the elections as failing to meet international standards. At the same time, however, observers from a number of countries and other organizations assessed the conduct of the elections positively.² In 2005 following the suppression of the Andijan uprising, relations with the US and the European Union (EU) deteriorated. Following US criticism of the Uzbek government, cooperation between the two governments in many spheres was reduced and US assistance to Uzbekistan was considerably cut. The EU imposed sanctions in the form of an arms embargo and visa restrictions for senior officials. However, these sanctions were relaxed in October 2007 and are now being reviewed.

7. **Economic management and governance remain characterized by low transparency, and limited voice and participation of citizens.** The restricted dissemination of basic economic and social information, and questions regarding the reliability of some data, is a serious impediment to strengthening the accountability of the authorities, to encouraging public participation in policy-making debate and to allowing civil society to play a constructive role in contributing to the effective monitoring and evaluation of implementation and results of state programs. However, the Government

² OSCE/ODIHR, LEOM, Republic of Uzbekistan, Presidential Elections 2007, Interim Report (5-15 December, 2007).

has indicated that it is working to enhance information dissemination and increase involvement of civil society in the implementation of state programs.

8. **The activities of civil society have historically been tightly controlled.** In 2005, legal and administrative controls on non-governmental organizations (NGOs) were tightened and scores of NGOs were denied mandatory re-registration with the Ministry of Justice, and have been forced to close their operations. Despite this, a significant number of domestic NGOs continue to operate in the social, and, to some extent, the environmental spheres. The WBG has been able to continue operating a Small Grants Program, albeit with fewer potential beneficiaries. Recently, a number of international NGOs including Human Rights Watch and the International Red Cross have reached agreements with the Government paving the way to a resumption of their activities in the country. Moreover, there are emerging examples of more cooperative relations between civil society and Government representatives, particularly at the local level.

B. Regional Significance

9. **Uzbekistan is strategically located in the heart of Central Asia.** The design and development of much of Central Asia's transport, energy and irrigation infrastructure during the Soviet Union created extremely tight links of mutual dependency between the Central Asian Republics which were managed centrally in a borderless manner. Since independence, Uzbekistan has pursued a policy of national self-sufficiency. In the absence of the alternative effective arrangements, the coordinated management of the Regional infrastructure systems has been disrupted and the benefits of close economic integration and cooperation have been missed.

10. **Major opportunities for mutually beneficial cooperation in water-energy and inter-regional trade remain under-exploited.** The management of the water-energy nexus has become a highly controversial and sensitive issue between upstream countries (Kyrgyz Republic and Tajikistan) and downstream countries (Uzbekistan,³ Turkmenistan and, Kazakhstan⁴). Cross-border trade is complicated by unintegrated processes and procedures. Purely national solutions, particularly those that involve by-passing Uzbekistan, are expensive and potentially destabilizing. Regional powers including China, Iran, Pakistan and Russia have stepped up diplomatic efforts to engage with Uzbekistan, including in the context of the Shanghai Organization for Security (ShoS) and the Eurasian Economic Community (EurASEC). The International Financial Institutions (IFIs), including the World Bank, are providing support to the process of regional cooperation through the Central Asia Regional Economic Cooperation (CAREC) forum. Nevertheless, relationships with direct neighbors remain rather tense.

³ The two great rivers of Central Asia, Amu Darya and Syr Darya, with their tributaries are the main source of water for Uzbekistan, 95 percent of which is used in the agriculture sector.

⁴ Irrigation water is however less strategically important for development of Kazakhstan.

C. Economic Context

11. **Uzbekistan experienced a relatively modest decline in real GDP** (20 percent compared to more than 40 percent average in the CIS) between 1990 and 1995 following the breakup of the Soviet Union. The initial recovery of 1996-2003 was marked by modest but consistent growth (4 percent on average) followed by a strong economic rebound with average growth of 7.3 percent between 2004 and 2006 and 9.5 percent in 2007. Uzbekistan is among the few countries in the former Soviet Union (FSU) which have seen an increase in population during the transition years⁵ (from 21 to 26.8 million) in contrast to many countries of the CIS, which have seen a dramatic decline⁶ in population. As a result, it is only in recent years that per capita incomes have begun to increase significantly. With a gross national income (GNI) per capita (Atlas method) of US\$730 in 2007 (Table 1) and GDP per capita of US\$2,394 at purchasing power party (PPP) Uzbekistan is classified as an upper low income country.

Table 1: Selected Macroeconomic Indicators, 2003-2007

	2003	2004	2005	2006	2007
Economy					
GDP, bln USD	10.1	12.0	14.3	17.0	22.3
GDP per capita, USD	396	465	547	643	830
GDP real growth	4.2	7.7	7.0	7.3	9.5
GNI per capita, USD, Atlas method	420	460	530	610	730
GNI per capita, PPP, current international \$	1651	1808	1970	2155	2,394
National accounts (% GDP)					
Exports of goods and services	37.3	40.2	37.9	37.5	40.3
Imports of goods and services	30.6	32.7	28.7	25.9	30.2
Consolidated Public finance (% GDP)					
Public Revenues	33.4	32.2	30.8	31.4	31.7
Public Expenditures and net lending	33.3	31.6	29.6	29.6	28.5
Fiscal balance	0.1	0.6	1.2	1.8	3.2
Augmented government balance	0.1	0.6	1.2	5.2	3.9
PPG Debt (Gov't debt)	41.5	35.5	27.0	20.8	13.2
Prices					
Consumer prices (official, eop)	3.8	3.7	7.8	6.8	6.8
Consumer prices (IMF, eop)	7.8	9.1	12.3	11.4	11.9
Balance of Payments					
CAB, as % GDP	8.7	10.1	13.6	19.1	19.3
FDI, as % GDP	0.7	1.6	0.6	1.1	3.3
Gross official reserves, mln USD	1659.0	2147.0	2895.2	4459.4	6613.9
Gross reserves (in months of imports)	5.1	6.3	7.9	10.7	13.5
Monetary					
M2, as % GDP	10.3	12.2	14.4	15.2	16.3
Credit to private sector, as % GDP	27.5	24.5	21.8	17.4	15.0

Source: Uzbek authorities, IMF and World Bank staff estimates.

⁵ Period between 1990 and 2000.

⁶ This is based on official information. A census has not been conducted for several years and the information may not be accurate.

12. **Economic growth is supported by stable macroeconomic management, promotion of sectoral investments identified as priority by the Government, favorable terms of trade and a buoyant external environment since 2003.** The industrial and manufacturing sectors are undergoing a process of public investment-led modernization, through active localization and import substitution programs, especially in strategic sectors, including car manufacturing, home electronics, machinery building and chemicals. Export growth has been driven by high commodity prices (including for cotton, gold and gas) and also by increased volumes of exports of industrial and manufacturing goods, particularly capital intensive goods (cars, airplanes, cement, electric cables, etc.) to the rapidly growing markets of key trading partners (Russian Federation, Kazakhstan, and others). Foreign Direct Investment (FDI) more than doubled between 2005 and 2007, albeit from a low base (FDI was estimated at 3.3 percent of GDP in 2007). Investment also flows to housing, retailing, food processing, light industry, textile, car manufacturing and supplies. The services sector is developing rapidly and asset prices are at historically high levels. The inflow of workers remittances from Russia and Kazakhstan give additional boost to domestic demand (remittances are estimated between 10-17 percent of GDP in 2007).

Figure 1. Contribution to GDP growth, 2003-2007

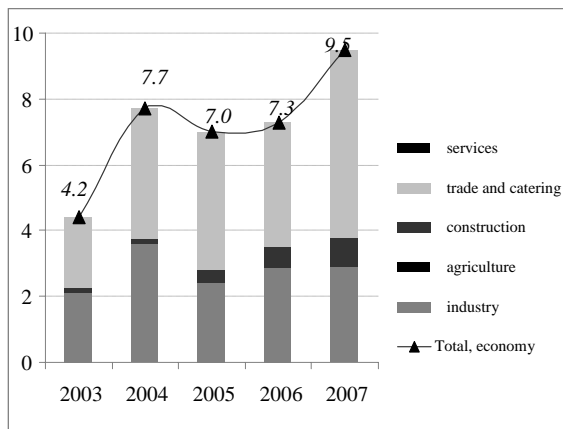
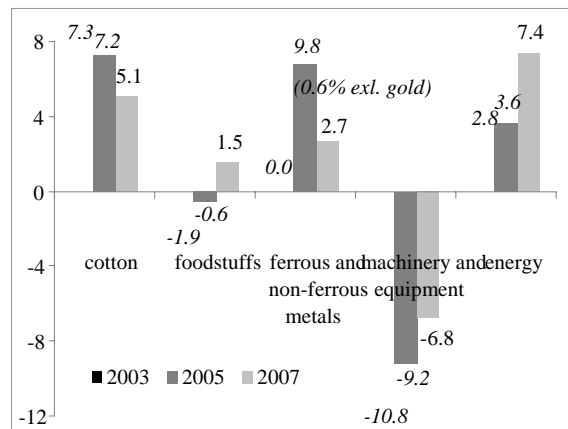


Figure 2. Net exports as % to GDP, 2003-2007



13. **Commodity price booms for major Uzbek exports account for a substantial share of economic growth during the recent period of economic expansion.** Uzbekistan remains a net exporter of energy, cotton and minerals and became a net exporter of foodstuffs in 2007 (Figure 1 and 2). Construction and services sectors also showed substantial economic growth in response to increased domestic demand, while growth in agriculture was lower than overall economic growth. The export expansion also caused growth in transportation and trade services. Uzbekistan has managed to capitalize on rapidly growing neighbors – China, Russia and Kazakhstan – to increase exports of machinery and chemical products to these and other countries.

14. **The resulting inflows of foreign exchange have considerably strengthened the external position over the past five years, but also created a dilemma for the authorities.** The current account has improved from small deficits in the late 1990s to an

average surplus of 14 percent of GDP in 2003-2007. Gross official reserves have risen in 2007 by 1.6 times compared to 2006, and were the equivalent of 13 months of imports. The exchange rate, which was depreciating in nominal and real terms, has recently started to appreciate. The large, partly unsterilized⁷, foreign exchange inflows, combined with a policy of nominal depreciation of the sum, have fuelled the growth of monetary aggregates, which have in turn put additional pressure on inflation⁸. Since 2004, broad money has been growing by close to 50 per cent annually. This, in combination with the global inflation pressures and continued adjustment in relative prices, complicates the task of the Central Bank in controlling inflation.

15. The fiscal position has also strengthened, supported by buoyant revenues from the commodity sector. Although the direct tax burden has steadily decreased, (e.g., the profit tax rates in commodity sectors declined from 18 percent to 10 percent during 2004-2007), the consolidated budget has been in surplus since 2003. Public debt has been reduced to less than one sixth of GDP in 2007 from over 40 percent in 2003. With current tight external borrowing policies maintained, the debt to GDP and debt service to exports ratios should decline further. The Government is expected to maintain fiscal prudence and keep the consolidated budget in surplus during the CAS period.

16. The outlook for 2008 is positive with real GDP expected to grow by 6-7 percent over the CAS period. These projections are more conservative than the official Government projections, in that they recognize that some of the current growth is based on the commodity price boom, itself fueling a strong demand for Uzbek exports of industrial goods and services (labor) from key neighboring trading partners, and that the official projections may be overoptimistic on the favorable impact in the short term of current gradualist reform policies. Nevertheless, it is expected that growth will continue to benefit from bringing under-utilized resources into production even if structural reforms proceed at a modest pace. Investment demand will continue to remain strong driven by modernization needs. In addition, to an active public investment policy, interest from private investors in some key economic sectors is also likely to be sustained. Indeed, Uzbekistan recently strengthened its ties with Russia and China and relations with many important trading and investment partners such as South Korea, Malaysia, India, Japan and the Arab States, are close. Private consumption, which grew at a modest rate of 3.8 percent over 2003-2007 when net exports and fixed capital formation grew at 11 and 35 percent on average over the same period, is projected to boost domestic demand from envisaged wage and salary increases and the likelihood of a gradual loosening (or at least no further tightening) of trade restrictions.

17. There are currently no major macroeconomic imbalances in Uzbekistan, but the authorities will need to be vigilant in the face of potential external shocks and continue to exercise prudence in managing the economy. The Bank's macroeconomic forecast for the CAS period provides for a gradual acceleration in the pace of expansion of domestic demand and a corresponding reduction in external surpluses. The rise in

⁷ The Capacity Building Unit (CBU) has sterilized some of the inflows, through the creation of a Reserve Fund (Fund for Reconstruction and Development).

⁸ The International Monetary Fund (IMF) staff calculates inflation using the authorities' source data and applying international methodology. The IMF is providing technical assistance to the authorities on National Accounts through a resident advisor in the Statistics Committee.

inflation as a result of increases in food and other commodity prices in 2007 is expected to continue in 2008 with a gradual decline in later years. This assumes the absence of serious external shocks and the continuation of gradual economic reforms. With fairly diversified sources of growth, strong external position, and the limited openness of its trade and financial sector, in the short term Uzbekistan may initially be in a better position than other more open economies to withstand adverse external shocks, including the current international financial liquidity crisis. Simultaneously, Uzbek banks have limited exposure to foreign banks, with modest external borrowing, thus running little risk of contagion from foreign banks suffering from the credit crunch.

18. **However, various distortions in the economy could undermine economic growth unless these issues are addressed.** In order to achieve the high growth rate envisaged by the authorities (about 8 percent), it is the WBG's view that additional reforms are needed. These include further liberalization of trade and exchange systems, particularly as regards the availability of imported inputs and the necessary foreign exchange, development of the financial sector and improvements in the business environment and investment climate, to stimulate private sector development. In addition, the currently strong external and fiscal positions may hide weaknesses in the economy if there were to be a reversal of the foreign exchange inflows. In the event of negative external developments, there is a risk of the reversal of reforms with a return to even more central control and protection in response to the external shock. In this regard, Uzbekistan is in a position to take advantage of the current buoyant economic environment for accelerating the implementation of structural reforms.

19. **Basic infrastructure may also emerge as one of the constraints to faster and more widespread growth in the future.** Uzbekistan has generally maintained its infrastructure (roads, irrigation network, electricity, gas distribution) in better condition than have some of its neighbors and has continued to invest in selected basic infrastructure projects throughout the transition period. Nevertheless, it is facing a major challenge going forward: the stock of infrastructure assets it inherited from the Soviet Union is extremely large for a country of Uzbekistan's GDP per capita and a large part of it may already be beyond its technical-economic life. As a result, the financing needs required to ensure that the provision and the quality of infrastructure services support future growth objectives will be immense in both urban and rural areas.

D. Poverty, Socioeconomic Inequality and the MDGs

20. **With per capita income of US\$730 (Atlas based) in 2007, Uzbekistan is an upper low income country.** Calculations based on a food-only consumption basket and a poverty line estimated at 2100 kilo calories per day suggest that slightly over one quarter of the population could still be considered poor (Table 3) in 2007.⁹ Given its large population, Uzbekistan accounts for a significant share of the poor in all of Central Asia, and its economic prospects are key to the region as a whole.

	2008	2009	2010	2011
		(percent change)		
Real GDP	8.0	7.0	6.5	6.0
Consumption (per capita)	7.5	6.5	6.2	5.6
Exports	15.2	13.8	10.8	10.3
Imports	27.8	13.3	9.6	14.2
GDP Deflator	17.0	15.0	12.0	10.0
Terms of trade	6.0	-6.6	-3.5	-2.4
		(percent of GDP)		
CAB	15.3	12.8	11.8	9.5
Budget revenues	34.9	34.6	34.5	34.5
Budget expenditures	30.0	29.8	29.4	28.9
Fiscal Balance	4.9	4.8	5.1	5.6
Public &				
Guaranteed Debt	11.1	9.7	8.7	8.1
Fixed investment	21.0	20.3	19.3	20.1

Source: Uzbek authorities, IMF and WB staff estimates.

21. **Based on available data, recent growth appears to have had a relatively modest impact on poverty reduction (Table 3).** In Uzbekistan a one percent increase in mean consumption leads to a one percent decrease in poverty, which is small when compared to the experience of other countries in the region.¹⁰ A disaggregated data analysis¹¹ shows that the consumption of households at the very bottom of the consumption distribution and the consumption of those who are at the top of the distribution improved much more than others during 2003-2006 period. Since there was not as much movement around the poverty line, the poverty elasticity of economic growth remains relatively modest.

⁹ The Bank's regional poverty study (Growth, Poverty and Inequality in Eastern Europe and Central Asia, October 2005) puts the share of people in Uzbekistan living on less than US\$2.15 a day (in Purchasing Power Parity terms) at 47 percent, comparable to levels in the Caucasuses or Moldova, but below levels in the Kyrgyz Republic and Tajikistan.

¹⁰ The average elasticity of poverty to growth in consumption per capita between 1998 and 2003 is -3.1 for Belarus, Kazakhstan, Russian Federation and Ukraine. In low income CIS, the average elasticity is closer to what is observed in Uzbekistan, at -1.4 (World Bank 2005).

¹¹ Based on 2007 Living Standards Assessment (LSA).

22. **The low elasticity is a reflection of the type of growth and its associated limited distributional effect across the population.** The findings from labor market analyses conducted under the LSA Update in 2007¹² suggest that key reasons for this relatively low growth elasticity, especially for the middle deciles, are constraints on greater private sector development in the formal sector and therefore dynamic job creation, and the persistence of underemployment in the informal sector. Although a generous system of public transfers and subsidies, as well as large flows of remittances contributed to reduction of extreme poverty, the population of the working age has grown considerably faster than formal sector employment since the mid 1990s.

	2000-2001*	2002**	2003**	2004**	2005**
National	27.5	25.3	26.2	26.1	25.8
Urban	22.5	21.1	22	18.8	18.3
Rural	30.5	27.7	28.7	30.3	30

Source: Uzbekistan Living Standards Assessment, World Bank, 2002.
 ** Authors' calculations based on Household Budget Surveys. The poverty line used is based on a food only consumption basket, equivalent to 2100 calories per day, considered an acceptable minimum level for a wheat based diet such as in Uzbekistan.

23. **The overall improvement in the macroeconomic situation has therefore not been reflected in a widespread significant improvement in the standards of living of the population.** Because so many people still directly or indirectly derive their income from agriculture or agriculture-related activities in the rural areas, and because the traditionally labor-intensive micro- and small business private sector is limited to 45.7 percent of GDP, the recent upturn in overall economic growth has yet to be translated in significant and widespread improvements in many people's living standards. Greater economic liberalization, to allow increased imports of consumer goods and improve the environment for private investment, would contribute greatly to improve prospects for a more pro-poor growth.

24. **There are significant differences across regions – with rural areas showing more poverty than urban areas.** As shown by the LSA, rural poverty has a number of causes, including declining soil quality in some places, the absence of non-agricultural jobs in most rural areas, and generally lower access to public goods. Environmental conditions are also a particularly important factor in regional variation in poverty rates. Karakalpakstan and Khorezm are at the tail-end of irrigation systems with insufficient or unreliable access to water and have been severely affected by the Aral Sea crisis. Here, as well as in other parts of Uzbekistan, water logging and soil salinity have continued to reduce the ability of those in the rural communities to raise their incomes. With the tightening of budget constraints for state-owned enterprises (SOEs) and utility price adjustments in recent years, a newly emerging concern is the urban poor, particularly in smaller regional towns. This regional diversity also translates into persistent socioeconomic inequalities, although consumption inequality is moderate compared to the rest of the FSU (the Gini coefficient is estimated at around 0.368).

25. **Since independence, food-security policies increased self sufficiency and partly isolated Uzbekistan from the effects of the current global price increase.** Food imports are relatively small and related to specific items, such as vegetable oils.

¹² The World Bank, Report No. 40723-UZ.

Uzbekistan is a net exporter of fruits and vegetables and has achieved wheat self-sufficiency. The country officially imports relatively small quantities of wheat and flour from Kazakhstan because of quality considerations. However, the isolation from global price trends is not permanent and pressure on food prices will continue to increase. This will inevitably place an additional burden on the poor, particularly in urban areas. In rural areas, the impact will be less, since production for self-consumption in household plots (the so called “Dekhan farms”) is widespread.

26. Relative to its per capita income, Uzbekistan records favorable health outcomes. It has not seen the decline in life expectancy that has characterized several CIS states and MDGs in health appear achievable. However, a survey funded by the United Nations Children’s Fund (UNICEF) in 2006, reveals that infant mortality was still around 48/1000 in 2006. The Bank’s LSA further revealed that poor people’s access to health services, particularly the services provided by the hospitals, is impeded by significant out-of-pocket payments, and that the input-based financing system has led to significant regional inequalities in standards of service. Reforms in primary health care, supported by the WBG, have improved governance and accountability in the health sector, increased availability of funding and other medical inputs for rural PHCs and increased financial autonomy of SVPs. These reforms have resulted in improvements in quality and availability of health services as attested by beneficiaries’ surveys. Uzbekistan however still faces challenges in maternal health, nutrition, HIV/AIDs and TB. These last diseases have been spreading at an exponential rate in Central Asia and have emerged as a key challenge for public policy over the coming years.¹³ However, for these issues, appropriate policies and strategies have been developed and the Government has been effective in implementing them.

27. Results in education are also favorable. Uzbekistan’s spending on education remains high; equal to and even exceeding levels in some Organization for Economic Co-operation and Development (OECD) countries (although a significant part of this is investment in new vocational training institutions). This has allowed primary and secondary school enrollment rates to be maintained, although some concerns persist over the quality of education and also over attendance rates particularly in rural areas. Existing studies (including the Bank’s Public Expenditure Review (PER) further suggest that the cost-effectiveness and labor market relevance of spending, particularly on vocational secondary education, is low. Statistics on learning achievement based on a measurement of skills rather than knowledge carried out through a random statistical sampling of schools are not nationally available, and a systematic analysis of access issues has not been carried out. Further work is needed both to develop an adequate monitoring system and to improve targeting of government expenditures. The

¹³ The recorded HIV infection rates in Uzbekistan (estimated at over 3,500 at end-2003, up from 230 at end-2000) remain low. However, as elsewhere in the region, there are worrisome signs of very rapid growth due to expanding use of drugs, especially in urban areas. Moreover, international experience suggests that the actual number of people infected may be 5-10 times higher than officially recorded rates. The Government has approved a National Strategy for Prevention of HIV/AIDs, and successfully applied for a grant from the Global Fund against AIDS, Tuberculosis and Malaria (GFATM). Uzbekistan (together with Kazakhstan, Kyrgyz Republic and Tajikistan) is also an active participant in a US\$27 million Regional AIDS Control project to minimize the human and economic impact of HIV/AIDs epidemic.

Government, with support from the WBG and the Asian Development Bank (ADB), is increasingly focusing on student assessment and reforms in school governance.

III. COUNTRY DEVELOPMENT PROGRAM

A. Country Vision: the Government's WIS

28. **The Government of Uzbekistan has endorsed the MDGs.** For Uzbekistan, the main goal under the MDGs translates into a reduction of the poverty rate from 27.5 percent in 2000 to 14 percent in 2015. The Government has been increasingly concerned by the disconnect between the impressive economic results of recent years and the relatively modest reduction of poverty. Aggregated GDP growth in 2002-2005 was 24.9 percent, but the number of poor for the same period was reduced only by 2 percentage points.

29. **In response to this challenge, the Government approved its first Poverty Reduction Strategy paper (PRSP) – the Welfare Improvement Strategy (WIS)¹⁴ - in September of 2007.** The WIS is a national strategic document for the social-economic development of the country over the period 2007-2010. It was prepared by an interdisciplinary team of government experts under the leadership of the Ministry of Economy, with analytical support of the United Nations Development Programme (UNDP), ADB and the WBG. The WIS is a comprehensive framework to address poverty and living standards issues built on the policy of granting a greater role to market principles within a gradualist approach to structural reforms. It aims at improving the living standards of the population through sustaining a robust and inclusive economic growth, developing a modern and diversified globally competitive economy, enhancing the quality of public services and reducing inter-regional inequalities in socio-economic development.

Poverty Diagnosis:

30. **The WIS provides a candid assessment of poverty level and trends in the country relying primarily on the Household Budget Survey (HBS) data.** The quality of poverty monitoring and the capacity for poverty analysis, including that related to non-income dimensions of poverty and access to services, require further strengthening. Increased access to information and encouraging broad-based discussion of development challenges that the country faces, would enhance the possibility of analysis of the critical poverty-growth related issues and deepen the understanding of the linkages between policy actions and pro-poor growth.

¹⁴ The WIS was discussed by the Board in January. 2008.

Macroeconomic Framework and Main Policy Areas in the WIS:¹⁵

31. **The WIS highlights the role of maintaining sustainable high rates of economic growth as a main instrument for poverty reduction.** This goal is to be met by a combination of continued stable macroeconomic management, state-led industrialization policy and acceleration of structural reforms in selected areas.

- **Improvement of the business environment and tax reform.** The WIS recognizes the need to enhance private sector development through a gradual reduction of state regulation in the economy and reducing the costs of doing business. The WIS does not elaborate much, however, on the reduction of transaction costs, streamlining of customs procedures and simplification of certification and licensing.
- **Trade.** The WIS contains a candid discussion of the shortcomings of the trade regime and trade practices, but does not contemplate comprehensive changes to the current trade regime and practices. The Government however proposes to anchor its gradual trade liberalization to the process of harmonization with the EurAsEc and, in the future, through joining the World Trade Organization (WTO). For the time being, however, the Government intends to continue encouraging the build up of the industrial base of the country, using localization and import substitution as mechanisms to achieve this objective.
- **Financial sector reform.** The WIS includes a list of financial sector reforms needed to further enhance financial deepening and to strengthen the role of banks in economic development, as well as to improve the transmission mechanism of monetary policy. The WIS, however, would have been strengthened had the document explicitly included a road map for the further development of the financial sector over the next three years.
- **Rural sector development and environmental management.** The WIS recognizes the importance of agricultural growth for improving the livelihood of people and emphasizes the close link to environmental issues including sustainable irrigation and water management systems, soil improvement and drainage, more efficient use of water resources and the importance of cost recovery. The WIS, however, does not envisage the gradual reform of the state procurement system for cotton, although it may well have a huge potential to improve income and unleash new opportunities for growth in the rural economy.
- **Improving the performance of utility and communal services in large and small cities, towns and villages.** The WIS proposes rehabilitation and extension of water supply, sewerage and solid waste management systems, the reduction of physical and commercial losses in the electricity and gas systems, the installation of energy efficient heating systems including options to decentralize inefficient Soviet-era systems. It also proposes the development of appropriate market based pricing systems for utilities, so as to combine efficiency with financial sustainability and

¹⁵ For a detailed joint Bank-IMF assessment of the WIS please refer to the Joint Staff Advisory Note dated January 24, 2008 (Report No 41799-UZ).

protection of vulnerable social groups. In the field of public utilities, the Government strategy calls for private sector participation.

- **Strengthening human development.** The WIS recognizes that, although the Government pays special attention to the development of social services, including health and education, the quality of these services still needs to be improved. Therefore, continued public investments and more efficient financing mechanisms in education and health, would be needed to ensure that the poor contribute to and benefit from economic growth. The WIS focuses on achieving the MDG's and envisions improvements in primary, emergency and specialized health care, preventive health measures, and a gradual transition to output-based financing. In education, the Government's objective is to maintain a high literacy rate. The Government's priorities therefore include providing 12 years of mandatory free education and improving the quality of primary and secondary education while maintaining universal access.
- **Improving the functioning of the labor market and social protection systems.** The WIS recognizes how critical the strengthening of the social protection programs is to protect the poorest sections of population. The WIS also stresses gender equality as one of its goals and contemplates targeted government interventions to support investment and job creation in less advantaged regions of the country and ensure equality of access to services regardless of the place of residence. However, the WIS does not provide a detailed program on how to improve the (pro-poor) targeting performance of social assistance programs, although it highlights the importance of programs targeted to the poor households. The WIS contains clear labor market objectives, but specific policy actions, regulatory changes and measures will have to be elaborated in the course of implementation.
- **Improving governance.** The WIS includes measures on administrative reform, improvements in policy-making structures and in strengthening the role of the legislature in oversight of the executive, greater access to information, decentralization, as well as longer term reform of the civil service. It proposes to tackle the challenge of more transparent and efficient allocation of resources through reforms in public expenditure management and introduction of a robust monitoring and evaluation mechanisms. However, the WIS does not propose an actionable plan of measures to implement the stated objectives.

32. **Broad participation of both line ministries and civil society would enhance WIS implementation.** As noted in the Joint Staff Advisory Note (JSAN), the implementation of the WIS will be challenging and will require Government's further efforts to: (i) set clear priorities amongst policies, programs and investments through costing and cost/benefit analysis; (ii) establish methods and institutions for monitoring and evaluation; (iii) sharpen policy analysis in selected sectors and detailing the measures to be taken in support of sector goals and (v) strengthen public and civil society participation.

33. **The authorities have recognized the central importance of technical assistance and external advice in WIS implementation.** Their request for such involvement from the donor community is encouraging. The preliminary estimate for TA support across the WIS agenda that would be provided by a combination of largely local

and selected international experts amounts to approximately US\$6 million over an implementation period of three to four years. The Government has initiated and will continue to seek grant funding support from donors to meet these technical assistance needs. It should be recognized, however, that progress on understanding and addressing the poverty challenge will depend both on funds being available for TA support for WIS implementation and on willingness by all partners and Government to cooperate and advance a more open dialog and improved information sharing.

B. Donor Partnership in Support of Uzbekistan's Economic Development Objectives¹⁶

34. **There is a relatively small group of donors active in Uzbekistan and overall external funding decreased during the ISN period.** However, there is strong support among all donor agencies for coordination and harmonization of activities. There is extensive collaboration in capacity building, as illustrated recently in the joint involvement of the UNDP, ADB and the WBG in support of the Government's preparation of the WIS. There is also considerable collaboration at the project level in the health sector in partnership with the United States Agency for International Development (USAID) and ADB. In the areas of irrigation and drainage, the Bank has active partnerships under its existing projects with the number of international agencies. The Government of Japan is a source of significant trust funding through the Japan Social Development Fund (JSDF) and Japan's Policy and Human Resources Development (PHRD) in support of activities planned in this CAS. The ADB and the WBG conduct Joint Portfolio Reviews with the Government, and where possible use the same implementation arrangements. UNDP and the World Bank have also coordinated to provide support for improved monitoring and evaluation systems in the context of implementing the WIS.

35. **Uzbekistan is party to all of the United Nations Office on Drugs and Crime (UNODC's) regional projects (which are supported by other donors including the WBG).** These projects are focused on drug abuse prevention and treatment, HIV/AIDS prevention, and counter-narcotics enforcement all of which promote regional cooperation and coordination. The WBG and UNODC have also collaborated in the delivery of capacity building workshops in the context of the AML/CFT Mentor Program since Uzbekistan enacted an AML/CFT law (in 2004), created a financial intelligence unit, and ratified the major United Nations (UN) Conventions¹⁷ covering money laundering and terrorism financing. These workshops covered role and functions of a Financial Intelligence Unit, training on international AML/CFT obligations and best practices.

36. **The WBG is working closely with the IMF on issues related to macroeconomic stability and economic management.** The Government is cooperating fully with the IMF, in particular in the context of the Article IV review, and is benefiting from continued IMF's Technical Assistance (TA). IFC has been working with the

¹⁶ For more detailed information on donor partnership please refer to Annex 3.

¹⁷ UN Convention Against Illicit Trafficking of Narcotics and Psychotropic Substances; the UN Convention for Suppression of Financing of Terrorism; and the UN Convention Against Transnational organized Crime (Palermo Convention).

Government on addressing regulatory obstacles in the business environment for SMEs and improving the legal framework for housing finance, and with private sector on improving access to finance for SMEs. Funding for IFC's regional advisory services, such as leasing, the mortgage program and the SME banking advisory, has been provided by IFC trust funds, the Swiss State Secretariat for Economic Affairs (SECO) and the Netherlands.

IV. BANK ENGAGEMENT IN UZBEKISTAN: LESSONS LEARNED

A. Background

37. **The operational environment for the Bank in Uzbekistan has been difficult for many years.** The previous CAS (2002-2004) attempted to establish a framework for policy dialogue and set policy triggers for various scenarios. This approach proved to be ineffective, given the authorities gradualist state-led development strategy. Triggers were often perceived as imposed external conditionalities, and there was thus little ownership. In addition, the fact that Uzbekistan had little need for external financing provided little incentive for active cooperation with the Bank in areas that were not clearly demand-driven by the government. Reforms which did take place came about from the gradual absorption of technical and project work over a number of years and the slow but steady build up of ownership and generation of a critical mass for reforms. In view of the good macroeconomic performance and buoyant growth over the past few years, the Government perceives its strategy to be successful and therefore has little motivation to fundamentally revise it in the short term.

B. The Interim Strategy

38. **A CAS was prepared in 2005 for discussion at the Board, but was eventually switched to an Interim Strategy Note (ISN) approved in July 2006 as questions arose on developmental effectiveness of the proposed program.** The ISN included financing of one project together with technical assistance and analytical advisory services to support the development of the WIS and ensure local stakeholder participation for increasing development effectiveness. The IFC's program focused on advisory services aimed at improving the business environment and legislation, as well as increasing access to finance to MSMEs and establishing the basis for the development of housing finance. The ISN was intended to give the Government and Bank staff a focused opportunity to work together to address areas of difference, while continuing to demonstrate good cooperation in the implementation of existing lending operations. A key question for the Interim Strategy was the process by which readiness to return to a standard assistance framework would be reviewed.

39. **The Government and the Bank agreed on assessing the results against four basic benchmarks to be achieved in the short-term:** (i) finalization of PRSP/WIS; (ii) stable macroeconomic management; (iii) improved portfolio performance and (iv) timely access to data. It was agreed to look at the totality of progress during the ISN, not treating each result area as a necessary pre-condition for moving ahead. In addition, it was agreed to carry out a governance assessment to be conducted jointly with the

Government in a sector selected by the authorities and where the Bank was active (health).

40. **In addition, in preparation of the ISN, the Bank reviewed jointly with the Government future reform priorities against the authorities' own policy plans.** Incomplete structural reforms were documented as a list of policy actions in the ISN as a guide for this review, noting that priorities could shift in reflection of the dialogue. As had been the case with the triggers under the previous CAS, however, the Government expressed the view that, while there was no fundamental disagreement on the need to ultimately move in the areas indicated, internal consensus on the timing of implementation of many reforms did not yet exist and could hardly be secured under the ISN. In this context, the policy actions specified in the ISN were a framework for organizing policy dialogue with the authorities and included governance, poverty monitoring, agriculture policy, financial sector, business environment and trade.

C. Progress Under the ISN

41. **On all four benchmarks, results have been achieved.** The WIS has been developed and approved by the government. Macroeconomic management has been prudent and stable, and growth high. There have been significant improvements in the portfolio, although still subject to heavy bureaucratic processes that slow down project implementation. While data sharing remains somewhat ad hoc and its timely provision inconsistent, the government has made genuine attempts to respond to data requests. Finally, the dialogue and collaboration established in the context of the governance assessment in the primary health care sector has been a success.

42. **During the ISN period, the Uzbek authorities succeeded in maintaining and strengthening macro-economic stability.** They continued the gradualist approach they have pursued since independence and advanced on a few of the structural reforms areas identified in the ISN. Although progress has been less than anticipated, actions were taken in those selected areas the government itself had committed to move on during the short ISN period. Progress was noted, for instance, on the launching of the preparation for privatization of one of the major state-owned bank (Asaka Bank), on the initiation of privatization of urban land, on the completion throughout the country of the transformation of collective farms (“Shirkats”) into private leaseholds and on the slow but noticeable improvement of the business environment for SMEs (reduction of taxes, number of inspections and reporting requirements; reliance on court rather than administrative decisions; reduction in number of permits and licenses to start business activities; shortening of enterprise bankruptcy procedures, etc.).

43. **The overall quality of the working relationship between the WBG and the authorities has improved during the period of the ISN.** One example was the Government's close collaboration with the Bank team during the preparation of the WIS and joint work on poverty diagnostics. Another encouraging sign in the improving relationship between the Government and the WBG team is that the Government recognizes the shortcomings of the WIS as well as the challenges of its implementation and has recently indicated its interest in receiving TA to support the implementation of the WIS. The Government is also very appreciative of IFC's Private Enterprise

Partnership (PEP) TA services, and has been encouraged by this work to make improvements in the business environment for SMEs and establishing the legal basis for housing finance (Box 1).

Box: 1: IFC helps Uzbekistan Improve the Business Environment

IFC's SME Survey and the BEE work has included the following accomplishments which in part led to Uzbekistan improving seven places in the "Doing Business" report:

- **Assisted in developing 9 Presidential Decrees, expected to free up \$45 million for the SME sector.** The project has worked closely with government agencies to improve the business environment leading to streamlined registration, permits, inspections, business liquidation and tax reporting procedures.
- **Conducted 5 nationwide surveys of the SME sector.** These annual surveys have provided the basis for more than 150 policy recommendations, 100 of which have been fully or partially adopted by the government.
- **Introduced risk-based management in inspections.** The project has helped to implement risk-based management at all 33 inspectorates across the country.
- **Provided trainings for over 2,200 government officials.** Trainings have been provided on new regulatory procedures, such as risk based inspections, inspections checklists and the streamlined registration process.
- **Increased awareness on the new procedures.** The project developed and disseminated easy-to-read information materials on inspections and business registration procedures to SMEs.
- **Created 11 inspections checklists.** The project developed checklists for the Fire and Sanitary Inspectorates, to be used by both agencies in the course of inspections of business entities.

Source: Doing Business 2007.

44. **Strong progress has also been made in portfolio performance, which resulted in upgrading all of the problematic projects to "satisfactory" status and in a significant improvement in disbursement ratios.** As of March 2008 the Uzbekistan portfolio has no problem projects (as opposed to 2 problem projects at the time of the ISN), resulting in a 100 percent Proactivity Index. This portfolio improvement effort was also supported by high disbursement ratios (24 percent in FY07 and 20 percent in FY08 - above the current ECA average of 14.5 percent). Critical systemic issues are common for all IFIs and across the Bank's portfolio (e.g., contract award delays, slow project start and weaknesses in project monitoring and evaluation systems). To address these problems the Country Office has intensified work with the Government on project implementation through the Joint Technical Group and the Portfolio Action Plan reviews and is also providing support for improving monitoring and evaluation.

45. **Perhaps the most significant achievement during the ISN period was in project implementation.** Some projects were able to implement important policy components and innovative features (e.g., Rural Enterprise Support project (RESP) has been able to support privatization of collective farms ("Shirkats"), Health I and II have contributed to a major reform in the financing of primary health care, Basic Education supported the development of parental participation in school governance, etc). Under the Basic Education project, two important governance improvement measures (the activation of school boards, and progress in standard student assessments, measured against the State Standards for Public Education (GOS OSO)) were agreed upon with the Government. Notwithstanding much evidence of stronger engagement and a more trusting relationship with the WBG, the dialogue and progress are not as smooth as they could be. An area causing continuing bureaucratic complications in project implementation is the process of contract expertise of public procurement. As a result,

project implementation remains fraught with unnecessary delays and complications despite recent improvements.

46. **General access to data has improved, but unpredictability and ad hoc data provision continues, and more work needs to be done by the WBG and the authorities to ensure smooth data exchange in the future.** On the WBG side, streamlining economic and sectoral data requests that can prove onerous, acknowledgement that information requested may not be readily available and requires a special effort to collect and/or analyze, and establishment of clearer linkages between Bank requests for detailed data and Bank's output would probably help increase trust and improve collaboration. On the government's side, automatic and timely routine fulfillment of its obligations as regards data sharing deriving from its membership in the WBG should become the norm.

47. **During the ISN period, engagement on governance issues was also strengthened.** The Bank has been able to conduct regular Beneficiary Assessments for projects under implementation. Beneficiaries and civil society are very positive about project benefits and delivery of results on the ground (Box 2). In addition, cooperation with the authorities in the discussion on selected governance dimensions such as PFM, HR management and even procurement was encouraging, as it demonstrated that a careful, selective dialogue on governance is possible. The Primary Health Care Governance assessment has now been completed and will be shared and discussed with the government in April 2008. Building on these experiences, the CAS will strengthen the dialogue on selected governance issues through projects as well as dissemination and advocacy work.

Box: 2: Voice of the Beneficiaries

A beneficiary assessment on selected projects was carried out at the ISN Mid-term Review, in March-April 2007. Beneficiary views on project outcomes were sought on the Bukhara-Samarkand Water Supply (BSWS), Rural Water, and the RESP, and the Health II projects. Health II project focus group discussions were carried out in Khorezm and Karakalpakstan regions. A summary on BSWS, Rural Water Supply and RESP is based on social assessments conducted under these projects in FY07. The beneficiary assessment provided useful information on project results, especially ones that depend on new institutional developments in respective sectors such as agriculture and primary health. A summary of key findings on the impact of WB-supported projects is presented below:

- Nearly 44,000 people got access to safe water and over 800,000 receive improved quality and quantity water in South Karakalpakstan
- 90 percent of covered population have access to water and 75-87 percent satisfied with water supply services
- Over 5,000 farmers benefited from improved irrigation
- Over 11mln rural population using improved medical services in over 2,300 refurbished primary care centers
- The incidence of infectious diseases has reduced

Source: World Bank project supervision surveys and consultations.

D. Lessons Learned from the Last CAS and ISN Implementation

48. **In preparation for this CAS, the lessons of the CAS Completion Report (CAS CR) of the previous FY02-04 CAS and of the ISN implementation have been.** The CAS CR concludes that, notwithstanding the slow overall pace of reforms, there were successes during the CAS period at the sectoral level, particularly in the implementation

of projects targeting improved public service delivery and benefiting from strong local stakeholder support (health, water supply, and municipal services). Government ownership of the reform process in these areas has allowed the Bank to orient public policy attention towards improving the efficiency of public service delivery as well as issues affecting poor people's access to basic services. The intensive dialogue around the LSA was the first time poverty issues were openly discussed with the Government. This experience suggests that development results can be achieved even against the background of a difficult overall policy dialogue and significant remaining differences on economic policy and the pace of structural reforms. However, the CAS CR¹⁸ cautions against expecting much more movement in areas where the Government's approach differs from that of the Bank. By diverting attention towards areas of disagreement, the Bank missed opportunities to contribute to enhanced living conditions and income earning opportunities for the poor that were feasible even under the prevailing policy regime, according to the CR.

49. **Over the years, the policy dialogue between the Government and the WBG has proved effective when demand-driven, specific and clearly articulated, like in the reform of health financing.** Officials are often keen to receive and act upon the Bank's advice and capacity building activities (for example in utility reform and housing finance). The dialogue has largely failed, however, when perceived by the Government as supply-driven or in areas where the Bank and the Government have different time frames and overall approaches, such as in reform of the cotton sector. Several important lessons emerged from past experience, which have been factored into the design of the FY08-11 CAS. They include:

- Positive development outcomes in support of basic human needs and improved living standards can be achieved within the prevailing policy environment of Uzbekistan.
- The WBG interventions are likely to be more successful in areas where common ground exists. While the Bank will need to continue to advocate reform on a broad front, the use of CAS triggers will be avoided. A move toward a deeper engagement will be facilitated by assisting the authorities prepare areas for enhanced engagement outside basic human needs.
- Shared ownership is key to successful engagement and can be strengthened through the use of pilots, demonstrating and communicating success, and involving stakeholders and beneficiaries in the design and implementation of projects. Building on the WIS as an explicit guide to Government's own priorities and objectives, should also serve this purpose.
- The WBG experience in Uzbekistan clearly demonstrates that investment projects rather than stand alone ESW or TA have been the most effective 'entry points' for policy dialogue and ultimately reform as they demonstrate effectiveness impact through concrete results.
- Future Analytical and Advisory Activities (AAA) will need to consider carefully both the Government's demand for advice and the readiness to provide access to data.

¹⁸ Distributed to the Board in August, 2005. Report No. 32293-UZ.

- Involving a wider group of stakeholders both in the preparation and dissemination of AAA to build a constituency for reform.
- There is a need to tackle limited capacity for project implementation through renewed attention to generic issues such as the public procurement process.
- Incorporation of Project Implementation Units (PIUs) into Government Ministries can promote the longer term objective of gradual integration of the WBG operations into government systems. Notwithstanding this longer term agenda, the Bank should remain uncompromising in its defense of the highest standards of fiduciary management, which is rightly regarded as important to mitigate governance risks.

E. Rationale for CAS Engagement

50. **The progress achieved under the ISN indicates that the WBG support to some key Government priorities can achieve effective results.** The proposed CAS framework will allow the consolidation of results, expansion of the areas of engagement and the establishment of the Bank as a trusted partner. It will allow engaging the authorities in areas where there is potential for common agreement, particularly to increase the effectiveness of service delivery through good governance.

51. **Consultations with non-government stakeholders in Uzbekistan indicated that a majority of local development partners support the Bank's continued financial assistance and advice.** There is a consensus that the WBG assistance should focus in areas which they regard as critical to improve people's livelihoods, rather than disengagement leading to increased isolation. Moreover there is a broad-based consensus that this is an appropriate role for IFIs (ADB has a similar approach). As was previously discussed, engagement has only been effective when sustained and long term.

52. **Finally it is important to recognize that given the regional importance and close linkages to neighboring states, engagement and development in Uzbekistan has the potential to bring benefits well beyond Uzbekistan's borders.** The importance of regional stability cannot in this context be underestimated. The Bank's experience and analysis of regional issues suggests that the potential costs of Uzbekistan disengaging from the regional dialogue are high, given the country's strategic location and its role in the future development of the entire Central Asia region. These concerns warrant continued efforts by the international community to advocate the benefits of greater cooperation with the country's neighbors.

V. THE WBG SUPPORT FOR IMPLEMENTATION OF THE WIS

53. **There is broad agreement between the Government, the WBG the donor community and other stakeholders on the overall direction and end-result objectives of the economic strategy of the Government expressed in the WIS.** There is also a consensus on the need to accelerate the pace of poverty reduction and persistent socio-economic inequalities. Thus, support to the market based elements of the Government's growth agenda provides broad areas for effective engagement with the Government. Nevertheless, there is a difference of views on the pace of transition.

54. **Based on lessons learned during the previous engagements, the current CAS will be results-based.** Levels of engagement will be calibrated by the degree of government ownership of an agenda which is shared by the WBG. This differs from past approaches in three important respects: (i) it recognizes that the same result may be achieved with different policy instruments and thus provides flexibility in devising a reform program adapted to the country's needs; (ii) it relies on joint agreement over shared target outcomes, thereby offering the potential for significantly greater client ownership; and (iii) the assessment of progress towards an agreed intermediate target would be made taking into account direct feedback from project beneficiaries and other affected stakeholders, and would allow for adjustments upward or downward to reflect exogenous factors outside the project's direct control. Moreover, the results framework adopted does not encompass Uzbekistan's entire development agenda but concentrates on those areas where – as a result of joint ownership and agreement – the Bank expects to make a difference.

A. Main features of the CAS

55. Overall, the proposed approach in the current CAS is to recognize that the WIS provides for different possible levels of engagement:

- *At the first level* in the areas identified as WIS priorities upon which there is mutual agreement on a reform sequence and content, which supports: (i) poverty reduction and improvement of living standards of the population and (ii) global goods provision.
- *At the second level*, (i) in the areas where the Government and the World Bank agree on broad directions and ultimate objectives of the reforms, but where further engagement is necessary to identify common ground, reform sequence and timing and to agree upon detailed work programs; and (ii) if there develops openings during the CAS period, in areas which, in the Bank's view, may be key for sustainable growth and poverty reduction but where the Government, while it may be willing and open to receive information and advice on alternative options has not yet committed to implement reforms.
- In addition, the WBG would continue to help facilitate increased regional cooperation, in particular through its support for Uzbekistan's involvement in CAREC activities.

56. An important feature of the CAS is to demonstrate through concrete results the central role of better governance and accountability in improving service delivery.

57. **At the first level**, in areas where there is strong engagement on the part of Government and where the WBG has a successful track record, the CAS will actively support the government in implementing its own reform agenda through ESW, TA and lending activities. This includes areas of common agreement such as: maintaining stable and sustainable macroeconomic performance; supporting economic growth through improving the business environment and investment climate; supporting development of agriculture services; improving public service provision (in ways which also reduce poverty) in areas such as irrigation, drainage and soil improvement, delivery of municipal

services and health and education. These are all areas where the WBG and the Government have had a sustained and very productive collaboration over the years, but where the needs for further advice, capacity building and financial resources remain immense. Additionally, the CAS will support specific activities related to the provision of global public goods, particularly related to carbon emission reduction and climate change issues, and communicable diseases.

58. **At the second level**, where broad agreement exists but where programs, sequencing and timetable remain to be articulated, work will be conducted during the CAS period, initially through ESW and TA, to establish the details and feasibility of future engagement, including as needed through lending. Areas of focus under this second strategic pillar will include: support for further financial sector liberalization and modernization. Indeed, the WIS emphasizes the need to enhance financial deepening and the role of banks in economic development. Building upon the WIS's welcome commitments to measures to improve governance, dialogue will also continue on improvement in this area, including as regards data availability, transparency, and accountability to citizens on the delivery of basic services. In the area of social protection, the WBG will engage with the authorities through dialogue and AAA activities to improve the targeting of social assistance. In addition, the CAS will aim at improving the fiduciary environment and capacities through promoting good international practice of PFM based upon PEFA type instruments.

59. **The CAS proposes to explicitly recognize areas where there is currently no agreement between the Bank and the authorities on the introduction of some features of a full-fledged market economy and the completion of transition, but where the authorities are willing to learn from international experience, to consider alternative options and to conduct joint analytical work.** While the Bank would respect existing differences in approaches, it could nevertheless continue a low profile and opportunistic dialogue in order to reconcile these different approaches in the future. For instance, although the WIS contains a candid discussion of the shortcomings of the trade regime and trade practices, the authorities remain committed to the program of localization enacted by *Presidential Decree no PP-386 dated June 22, 2006* aimed at ensuring a more rapid introduction of new production technologies, wide use of local raw materials, and increased production of modern competitive goods. Dialogue in this area in the short term would have to accept the basic premises of the authorities and be confined to ensuring that protectionist policies are applied efficiently and revised once some of their main objectives have been achieved. Additionally, the Bank will explore the interest of the Government for peer exchanges with officials from other countries facing similar technical or policy challenges to exchange views without the Bank "in the room". Such an approach has already been successful in public finance reform through the PEM- PAL (Public Expenditure Management – Peer Assisted Learning) program in which Uzbek officials have been participating. This could complement the more classic Bank provision of analytical work as a foundation for dialogue, and sometimes creates a more candid and open space for authorities to re-visit policy choices or stances.

60. **The CAS will also support continued engagement of Uzbekistan to advance the CAREC agenda of accelerating economic growth and the raising of living standards by encouraging economic cooperation in the central region.** By fostering

and facilitating regional cooperation in transport, trade, energy and other key areas of mutual interest, the CAREC program helps Central Asian and neighboring countries realize their immense potential in an increasingly integrated Eurasia. By partnership with multilateral and other international agencies, the CAREC program is a proactive facilitator of practical, results-based regional projects and policy initiatives critical to trade expansion, sustainable development and meeting new challenges.

61. The CAS will provide an opportunity to contribute to mainstreaming regional cooperation in Uzbekistan through facilitation or allocation of resources towards: (i) knowledge and capacity-building to strengthen the understanding of what is at stake in regional cooperation and the benefits from more effective transport, trade and energy systems; (ii) the development and implementation of special project initiatives that address emerging interests or concerns of CAREC countries and that contribute to broadening and deepening regional cooperation; (iii) contribution to the design and development of country ownership of sector strategies to guide regional transport, trade and energy initiatives; and (iv) business development by giving an opportunity to Uzbek business enterprises to participate in regional cooperation fora.

B. Stakeholder Consultations

62. During consultations for the preparation of this CAS,¹⁹ the Government expressed its broad agreement with the proposed priority framework for WBG's assistance under the CAS. Discussions with civil society representatives were also very supportive of the proposed strategy and participants expressed their keen desire to see the WBG continue and increase its support and activities in Uzbekistan. Overall the consultations indicated that the new CAS's focus on basic human needs and improving living standards is the right one, with many stakeholders also soliciting increased involvement of the WBG in improving the enabling environment for development of the private sector.

63. The consultations also highlighted the growing optimism over future economic developments in Uzbekistan, which need to be factored into the implementation of the CAS. The CAS does this through its annual monitoring framework, as well as the mid-term review scheduled after two years. Consultations with civil society stressed the importance of involving civil society in the design and monitoring of projects, and the desire of civil society to be closely involved in the implementation of World Bank activities. The government has also indicated its willingness to consult with stakeholders in the course of implementation of the WIS.

¹⁹ In preparing the CAS, an outline of key issues and a preliminary results framework were presented and discussed with the Government, donors, and civil society. CAS consultations were held in Bukhara, Navoi, Khorezm and Fergana regions, in the Republic of Karakalpakstan and the city of Tashkent. All visits included meetings with local government officials and with stakeholders' group comprising of representatives of civil society organizations, research and academia, entrepreneurs, farmers and media. Overall the consultations covered about 40 local government officials and about 300 representatives of various audiences. In addition to face-to-face discussions, the country office designed and implemented an Internet-based online CAS consultation facility to receive feedback, comments and suggestions for the widest possible audience.

C. Mechanisms for Bank Group Engagement

64. **Proposed *lending* engagement will focus on:** investments (i) that impact directly on income/quality of life of citizens, particularly the poor: in rural (education, irrigation and drainage, water supply and sanitation, agriculture credit, health, energy efficiency and reliability) and urban areas (education, health, solid waste management, wastewater management) and support furthering/deepening of sectoral reforms; and (ii) that support Uzbekistan's contribution to addressing global public goods and climate change issues (gas flaring, carbon finance) and promotion of the regional cooperation agenda. The Bank program would include 2-3 projects per year, the size of which will depend on the amount of IDA resources determined by the Performance Based Allocation (PBA) system and will be in line with the priorities mentioned above. The RESP II project (US\$68 million²⁰) is presented to the Board together with the CAS. The Bank is preparing two projects for FY09 delivery, Basic Education – Phase II and Ferghana Valley Water Resource Management Phase-I. Also under preparation in FY10 are a Health project and a Small Town Infrastructure project.

65. Uzbekistan is a blend country. In recent year however, difficulties have been encountered in using the full IDA allocation. Hence there has been no active consideration of IBRD borrowing. At this stage, the authorities have not indicated an interest in borrowing on IBRD terms. If this changes, eligibility for renewed access to IBRD might be considered during the mid-term review of the CAS, even at GNP per capita levels below the usual IDA operational cut-off, if significant reform progress is made and if disbursements accelerate considerably. In this case a creditworthiness assessment would be necessary.

66. **Proposed *non-lending* engagement will focus on:** (i) key sectoral and cross sectoral areas where Bank group supports Government's reform efforts, promote good governance as a way to improve efficiency and effectiveness and quality of service delivery and where the ESW is needed to deepen research and strengthen capacity. This engagement will seek to build on existing activities and develop new approaches towards dissemination and advocacy of selected governance reforms. For example, the WBG will seek to engage the government in discussing the issues that underlying low governance-related Country Policy and Institutional Assessment (CPIA) indicators. The WBG will also develop new approaches towards discussing efficiency constraints related to procurement issues.

67. **Other *non-lending* engagement would** – inter alia - support for the deepening/strengthening the WIS and building up capacity for monitoring and evaluation of its impact; programmatic TA in economic evaluation of and prioritization of investment projects; growth and poverty diagnostics; dialogue on increasing the efficiency of the protectionist trade regime; AAA activities in social protection to improve targeting, diagnostic of macroeconomic vulnerability; TA focusing on efficiency of service delivery and user accountability for efficient and sustainable use of water; dialogue on business environment; etc.); and (ii) activities that are linked to ongoing or future regional programs, to exploit synergies and promote regional exchanges and

²⁰ Equivalent of SDR 41.3mn.

cooperation.

68. These AAA activities are geared to advocate and prepare the ground work for reforms, consistent with the two levels of engagement proposed in the CAS. In line with lessons learned under the previous CAS, particular attention would be placed on joint analytical work with the Government, with a focus on providing just in time TA to maximize the impact of the AAA program, taking into account the lessons of recently completed AAA impact assessment (Box 3). The pace of progress will, however, ultimately be determined by the Government's own agenda and political will.

Box: 3: Assessing the World Bank's AAA in Uzbekistan

What have been the impacts and effectiveness of the analytic and advisory activities (AAA) that the World Bank has provided to the Government of Uzbekistan? To answer this question, the Bank's country office in Tashkent collaborated with the World Bank Institute Evaluation Group in early 2008 to assess a series of technical assistance activities and economic and sector work.

On the whole, the Bank's counterparts rated the AAA favorably. Officials in several ministries noted their appreciation of the Bank's analyses, their typically high quality, and the level of knowledge and expertise represented among the Bank's staff and consultants involved in the AAA.

Opportunities for improvement related to a desire to make the Bank's reports as practical as possible as opposed to complex and theoretical and to ensure that the material is accessible, desirably through brief reports with effective executive summaries. Clear identification of development objectives was occasionally lacking. In some instances, objectives identified in concept notes were not evident or well addressed in the completed report. Several reports overwhelmingly emphasized summary or description of an "existing situation," which is already likely to be well known within the government, at the expense of proposed options for change and how to implement them.

Effective distribution of completed reports and their dissemination to promote achievement of the AAA's development objectives were identified as major opportunities for improvement. Although the AAA had led to six reports, all completed between 2006 and mid-2007, none had been formally published or were available in the Public Information Center in Tashkent or on the Bank's website. None were internally available to Bank staff at the ImageBank, the mandatory repository for completed economic and sector work. In several instances, key government officials had either not received reports pertinent to their responsibilities – or at least had no recollection of having received them. Such a situation clearly diminishes the Bank's opportunities to influence policies or reforms.

To strengthen the Bank's AAA, the review recommended the development of a standard framework that can be used to develop *and implement* effective concept notes, an enhanced role for the country office at each stage of the AAA cycle, substantive involvement of government officials in the development and review of concept notes, and a substantial increase in attention to publication and dissemination. A systematic postmortem and review of each completed activity with appropriate government officials about two months after a report's completion can also improve the impact and effectiveness of the Bank's AAA.

Source: World Bank: Assessment of the effectiveness of the AAA assistance in Uzbekistan.

69. Overall, the CAS lending and AAA program is proposed to be flexible to allow for adjustment to reflect client demands and the extent of agreement on policy issues during implementation. At the same time, in response to Government's decision to undertake reforms, the country management team will provide appropriate lead-time for project preparation and sector work to ensure quality and adequate participatory process.

D. WBG Proposed Activities in Support of the WIS Objectives

70. The WBG will support government priorities through four main pillars:

- Enabling environment for shared growth
- Increasing economic opportunities in rural areas
- Improving service delivery
- Managing environmental and global goods provision

Pillar 1: Enabling environment for shared growth

71. **Continued sound macroeconomic management** is key to sustaining growth and this CAS pillar will be supported by regular *macroeconomic policy dialogue*, in conjunction with the IMF. The Bank will work with the authorities on issues of macroeconomic vulnerabilities and long-term sustainability through a series of targeted *economic issues notes*. One of the key issues in the WIS – the link between economic growth and the reduction of poverty – could be more closely investigated jointly with the authorities under a *Programmatic Poverty Analysis*.

72. **Institutional support for WIS implementation.** The WIS contains a large agenda of structural reforms to promote further and more pro-poor economic development. However, limited capacity and political constraints will dictate a sequenced implementation of this agenda as the WIS does not imply a fundamental shift in economic strategy. The Bank will therefore proceed cautiously in providing support only where there is clear evidence of progress in implementation. One area in which the Government and the Bank have established common ground is the need to improve the efficiency of public resource management. The Bank would provide analytical support through a *Programmatic Public Expenditure Review (PPER)*, which would provide support to the authorities in agreed areas of public financial management reform (initially agreed focus areas include assistance in the Medium-Term Budget Framework (MTBF), and a review of municipal financing arrangements), and might include benchmarking through PEFA type assessments. In addition, the WBG proposes to address the Government’s request for support in implementation of the WIS through a *WIS TA*, which will focus on supporting the authorities in improving prioritization, economic evaluation and costing of public investment projects, for which the WIS provides only preliminary estimates, through focused ESW and the mobilization of donor resources. In conjunction with other donors, the WBG will also provide assistance in strengthening monitoring and evaluation, of the WIS, including through greater stakeholder and beneficiary group participation. This support would also extend to assisting the authorities in the design of necessary “mid-course” corrections, as required in the light of results achieved.

73. **Private Sector Development, Business Environment and Investment Climate.** Further development of the private and financial sectors is crucial for sustained growth and poverty reduction – as recognized by the WIS. The Government has been reluctant to borrow for TA, but the WBG will continue to engage in policy dialogue in those areas in response to the authorities’ interest in understanding policies and regulations that affect the structural areas of the CPIA. Other AAA work on private and financial sector issues would be undertaken in close collaboration with the IFC, IMF and the EBRD. In addition, the WBG will provide support to the development of the private sector in rural areas by building on the positive experience of the RESP (see paras 84 and 85).

74. For the purposes of private sector development and to encourage informal activities to move to the formal economy, the Government should continue implementing reforms aimed at increasing the efficiency of government, as well as sustain the policy of reducing direct government intervention in entrepreneurial activities and simultaneously developing the tools for indirect economic regulation based on market principles. The IFC has devoted substantial resources to help develop the private sector and to advisory services for project identification as well as capacity building in the financial sector. Despite these efforts, it has been difficult for IFC to identify bankable projects and attract foreign investors due to limited foreign investment and the difficulty for private sector to operate. In light of this, IFC's activities in the country have been heavily focused on advisory services, particularly in the financial sector, for capacity building and on improving the business environment.

75. Going forward, IFC is increasing its operations in Central Asia in order to support more competitive businesses, improve access to finance and contribute to the sustainable and equitable development of the region. In Uzbekistan, IFC focuses on increasing access to finance for MSMEs, particularly those in rural areas such as the Ferghana Valley and Karakalpakistan. In addition to supporting the improvement of the business environment, IFC will strengthen the financial sector by promoting the development of microfinance, leasing, housing finance and institution-building of local banks and will seek to create a private microfinance bank with other IFI's. IFC will also support the development of an efficient credit bureau system. Furthermore, IFC will seek opportunities for new investment in agribusiness and general manufacturing such as in construction, retail and distribution; this may be in the form of more direct investment to small enterprises. Uzbekistan's rich oil and gas resources can potentially attract large FDI if the authorities make progress in introducing transparency in the sector. IFC will seek to selectively engage with companies in the oil, gas and mining sectors, subject to public disclosure of revenue payments made to the Government, on a pilot basis, as a means of encouraging greater overall transparency, and hence investment, in the sector.

76. As a landlocked country, efficient cross-border trade and trade facilitation infrastructure, logistics and intergovernmental agreements are important, yet Uzbekistan is only ranked 129 in the Logistic Performance Index. A regional advisory services project to promote PPP in infrastructure is being scoped. However such a project would be contingent on serious commitment on the part of the Government. Finally, in the financial sector, the Government is working towards the privatization of the NBU and of Asaka Bank, two major players, whose share in the total assets of the banking system has reduced in the period of 2000-2007 from 80% to 46%. Should banking privatization progress during the CAS period, IFC would be prepared to consider advisory services and financing to support these privatizations.

77. Under the World Bank/UNODC mentor program, several technical training workshops were delivered to build desired capacity on AML/CFT standards. Nevertheless further World Bank AML/CFT technical assistance would be made available upon request from the authorities, should they wish WBG support to address issues raised by the FATF regarding compliance of the current Uzbek legal framework

with an internationally recognized AML/CFT regime.²¹ Progress to re-establish such a framework would also assist in attracting foreign investment, particularly in the financial sector, and in so doing would facilitate increased IFC support.

78. The Multilateral Investment Guarantee Agency (MIGA) has currently no outstanding exposure in Uzbekistan but could also provide support. Going forward, MIGA would consider opportunities to support foreign investment in Uzbekistan through the provision of political risk guarantees. MIGA's assistance will mostly depend on the country's progress on implementing reforms and foreign investors' demand.

79. Finally, an Accounting and Auditing Report on the Observance of Standards and Codes (ROSC) is currently being conducted for Uzbekistan and the report will be delivered to the government before the end of June 2008. Based on this assessment, the WBG will engage the Government in the development of an action plan to further improve accounting and auditing practices in Uzbekistan as this critical for private sector development, with a view to ultimately consider adoption of the International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS).

80. **Promoting Good Governance.** The key governance challenges in Uzbekistan lie in weak mechanisms for interaction between the Government, private sector and civil society, centralized decision making and control; low transparency and instances of self-censorship. The strength of the state combined with the lack of checks and balances suggests that changing such an environment will be a slow process. However the authorities have demonstrated that where poor governance can be shown to be an impediment to efficiency there is a clear willingness to improve governance. Some of the most important examples are recent improvements in PFM through introduction of a Treasury, and in the business environment through the simplification of regulations, which should also lead to a decline in the unofficial payments faced by SMEs engaged in those procedures²². In addition the successful engagement of the authorities on governance issues in the area of primary health care and in education through the creation of mechanisms for parent feedback and influence on the running of schools shows how it is possible to incorporate governance issues into sectoral dialogue.

81. Thus the governance agenda can be supported through on-going projects and directly in areas where the government is willing to borrow for sector investment, through design features of the projects themselves. In addition to project design governance issues can be addressed through stakeholders' involvement, TA and dialogue maintained during project preparation and throughout the project supervision period.

²¹ In early 2007, three Decrees (Presidential Decrees of 12 Jan 2007; 20 Feb. 2007 and 27 April 2007) were enacted suspending the obligation for financial institutions to report certain transactions to a financial intelligence unit until the year 2013, while in February 2008 an "Amnesty" Decree was enacted imposing penalties on anyone who questions the legality or origin of financial resources deposited in an Uzbek financial institution. Although adopted with the intention of improving public confidence in the banking system, the effect of these decrees was to prompt the Financial Action Task Force to post a public statement on its website on February 28, 2008 (<http://www.fatf-gafi.org/dataoecd/16/26/40181037.pdf>) expressing serious concerns that these Decrees "effectively repeal the AML/CFT regime."

²² Indeed, the IFC SME survey shows an overall decline in the unofficial payments, in particular for those procedures where reforms have been undertaken.

82. There will be engagement on governance issues through a number of vehicles. The first involves a focused dialogue with the authorities on measures that address poor governance outcomes. The dialogue will need to be based on exposure to international experience, including through such instruments as PEMPAL and other peer-learning tools. In particular, it is proposed that Internal Audit and/or procurement Community of Practitioners events could be organized under the PEM-PAL program in Uzbekistan.

83. The second will be to build upon the detailed governance assessment in the Primary Health sector which was carried out with strong support and excellent collaboration from the authorities (Box 4). The WBG will continue its intensive work with the Government focused on improvement of efficiency of public service provision through existing “governance entry points” where there is real Government ownership, prompted by concerns over poverty reduction and persistent socioeconomic inequalities, and by the recognition and acceptance that governance improvements can clearly improve efficiency; and greater accountability would significantly improve quality of service delivery. This approach would include (i) involving civil society in monitoring efforts for social services provision; (ii) promoting managerial flexibility and management objectives in state-owned providers of social services, as well as rule-based approach (improve corporate governance of providers); (iii) expanding private provision of social services and client choice, where appropriate; and (iv) continued data collection and dialogue on business environment through IFC-PEP.

Pillar II: Increasing economic opportunities in rural areas

84. **Rural development.** Agriculture is an important sector of the Uzbek economy, accounting for 24 percent of GDP, 33 percent of foreign exchange receipts, and 41 percent of employment. This pillar is aligned with the WIS’ calls for investment into rural services for reducing rural poverty and overcoming regional disparities. It will also support the *Shirkat*²³ reform which significantly improved the farm incentive structure, but also increased rural unemployment, and created new needs for the newly independent farmers to gain access to skills, inputs and credit. Two major obstacles prevent the *Shirkat* reform achieving its full economic benefits:

- The state procurement system for cotton and wheat creates important disincentives for cost effectiveness and productivity improvements²⁴. As a consequence, cotton yields have stagnated in Uzbekistan since independence;
- Demand from the newly independent leasehold farmers for access to services such as extension and medium term finance to purchase agricultural equipment far outstrips available supply, although leasing, in particular, has registered a significant development in the past years.

²³ Shirkats are cooperative farms which took over the management of the Soviet-era collective farms. The recent reform caused important structural changes to agriculture and resulted in the establishment of around 200,000 new independent farmers with an average size of 15-20 ha each. The total land area managed by the new farmers is around 2 million ha, from the restructuring of 1,600 collective farms. Non-tradable leases of up to 50 years are inheritable although full private ownership of land is not yet allowed.

²⁴ See for example Country Economic Memorandum, 2003; Policy Note on Cotton Taxation, June 2005.

Box: 4: Uzbekistan – Undertaking Governance Work in a Difficult Environment

The ISN identified governance as an important focus of the Bank’s analytical and advisory work in Uzbekistan during the interim period. The governance study has focused on the health sector – more specifically, on primary health care (PHC) at the local level; a sector selected by the Government itself, where reforms were being implemented and where the Bank and other donors have actively supported such efforts in the context of the Health I and II projects. It was decided that two oblasts, one representing an advanced reformer (Ferghana), and a later reformer (Samarkand), would be the focus of the analysis; it was also agreed that a survey as to the quality of service delivery would also be undertaken.

To assure the government’s buy-in of the findings and recommendations, the study was conducted in close collaboration with the authorities at both the central and local levels. In particular, the Ministries of Health and Finance (including their subordinated departments at the oblast and rayon levels) actively supported Bank missions and the surveys conducted in August and September 2007. The Bank regularly informed the central ministries and local government of its agenda and activities, and formed an inter-ministerial working group comprising government officials in Finance and Health to discuss the relevant governance issues. Mission members held a number of consultations with government stakeholders (service providers, health care managers, regulators and policy makers), and invited local government officials to participate in field missions. The team also discussed findings and highlighted issues with the central ministries at the end of each visit.

Preliminary findings of the assessment indicate that implementation of the (ongoing) health reforms over the past several years has had a positive impact on governance. Continued government commitment to the comprehensive health reform agenda, combined with the implementation of treasury modernization (piloted in Samarkand in 2006), has improved the effectiveness of local government in the provision of health services. The reforms have increased the budgetary allocation to health facilities, and thereby the availability of medical supplies, equipment, and repair and maintenance. The introduction of per-capita financing and autonomy in financial management for rural primary health facilities has improved funding predictability and accountability in management and the use of public funds. The introduction of a modern treasury system has increased reliability in the flows of funds, reduced delays in cash releases, and improved transparency and financial reporting. Further, staff training and the introduction of a development account for incentives and material techniques has improved incentives among health workers and their performance. The surveys’ findings also confirm that consumers are generally satisfied with the reforms: health service has improved in term of access, quality, and affordability, especially in areas where health reform is more advanced (Ferghana and the rural area). Health workers have indicated they are more content and motivated because they have been provided with updated skills and the necessary medical supplies, equipment and good infrastructure; staffs have also responded to being acknowledged and rewarded for good performance.

Source: Assessment of Governance Constraints to Health Service Delivery, World Bank, 2008.

85. The Bank’s approach in the CAS will be to demonstrate ways in which rural incomes, in particular, can be effectively increased, through a variety of pilot interventions in support of pricing and marketing reforms in the cotton sector, enhanced credit to rural enterprises and farmers, the development of microfinance through the existing banking system and the exploration of alternative rural employment and earning possibilities, particularly for the country's population of unemployed youth. The Rural Enterprises Support project (RESP I) brought important benefits in the project areas because it complemented the *Shirkat* reform by providing farmers with credit, access to finance, and improved irrigation and rehabilitation infrastructure. The newly independent farmers significantly increased their independence from the state by becoming the owners of farm equipment and becoming less dependent on State machine tractor parks for their mechanization. This proved an effective boost in the process of privatization which produced clear results in terms of increased yields and productivity (see FAO evaluation of RESP Project). These pilot interventions will be accompanied by AAA targeted at agricultural reform to continue the intensive policy dialogue carried out under the existing RESP and the proposed scaled up Second Rural Enterprise Support project (RESP II) in FY08 to significantly enlarge the project area.

86. **Water resource management, irrigation and drainage.** Consistent with the WIS objectives of “improving the system and increasing the efficiency of water resource management including investment in land improvement”, and “development of an integrated sustainable water management system for supply of irrigation water”, the Bank

will support financing of projects that will build upon the achievements of the Drainage Irrigation and Wetlands Improvement project and that would rehabilitate and modernize irrigation systems, support more cost-effective supply and use of irrigation water, improve on farm land management, and introduce modern technology and institutional development for improved irrigation. Bank-supported projects, starting with the irrigation and drainage component of the proposed RESP II in FY08 and proposed *Ferghana Valley Water Resource Management Phase-I* project in FY09 will continue to further strengthen the capacity of water user associations (WUAs) and to introduce more efficient irrigation practices and mechanisms of accountability and good governance.

Pillar III: Improving service delivery

87. Household survey data analysis suggest that significant declines in poverty reduction can be achieved by a combination of policies that encourage economic growth (and thus enable productive job opportunities) while at the same time increasing the efficiency and effectiveness of the delivery of public services. Despite Uzbekistan's relative success in the social sectors, the WIS highlights the importance of further improving service delivery and ensuring adequate financing and promotion of cost-effectiveness in service provision (reform of municipal utilities and health and education financing). Lending interventions in the health, education and municipal services sectors would aim at saving public resources through creating incentives at the service delivery level and strengthening local accountability and sectoral governance, thus providing support to the Government in reaching the above WIS objectives. An important feature of all WBG interventions in this area will be to demonstrate through concrete results the central role of better governance and accountability in improving service delivery.

88. **Municipal services sector development and financing.** Support in the municipal sector is envisaged for targeted investment in the areas of solid waste management, water and wastewater management and, possibly, to promote community-based heritage protection²⁵. Municipal sector support activities would be designed and implemented in a programmatic manner, drawing upon advisory sector work on the management of municipal services and infrastructure. To the extent that an environment conducive to PPPs develops, IFC could also become involved in financing investments in this sector.

89. **In rural water supply and sanitation,** the Bank will build upon the ongoing Water Supply, Sanitation and Health project, that supported the provision of safe drinking water along with improved hygiene education for the Republic of Karakalpakstan and Khorezm Oblast, and strengthened institutional capacity for management, operation and financial performance of the regional water supply and sewage utilities. A review of rural infrastructure and communal services is expected to establish a new approach to sustainable decentralized basic service delivery in rural areas with a particular focus on supporting/expanding rural communal services in Karakalpakstan as a part of the Aral Sea Initiative.

²⁵ The Bank will also explore additional income generating possibilities in cultural tourism following the successful implementation of the TFESSD financed pilot community-based cultural tourism and heritage protection activities in FY05-08.

90. Starting in 1996, the Government's **health sector** reforms, supported by Bank's Health I and II projects, focused on rural primary care aimed aims to shift the system's focus from secondary care to primary care. The reforms included restructuring of health facilities and rationalizing the health system; introducing the role of general practitioner, and increasing financial incentives to health workers. These were implemented along with the reform of SVP financing mechanisms. Implemented initially in only three pilot oblasts, the Government is now rolling out the reforms nationally and they will cover the entire country by end-2008. The reforms have improved governance and accountability in the health sector. SVPs are now the first point of contact in the health system and the rural population has expressed increased satisfaction with services compared with three years ago.

91. The Government is committed to continue strengthening primary care, but recognizes that to reap further efficiency gains, restructuring of the hospital sector needs to be undertaken. Future assistance to the sector envisages a combination of investment operations, technical assistance and analytical work to support deepening of ongoing reforms in the sectors focusing on secondary care, improvements in medical education and quality of care, implementation of drug policy and implementation of a multi-sectoral public health strategy. Further technical assistance and analytical work in the areas of nutrition, food safety and hospital reform including the role of private sector in health is envisaged. The development of PPPs in the hospital sector will be reviewed. Finally, it is envisaged to provide further support during the CAS period for implementing a multi-sectoral public health strategy focusing on areas of nutrition, food-safety and HIV/AIDS through investment and analytical work. This would include strengthening the regional response to infectious diseases control through scaling up existing and future regional investment and analytical operations.

92. The proposed CAS program of support in the **education** sector will focus on enhancement of quality and strengthening governance in the sector. The Basic Education project started in 2007 supports the Government's new basic education program, which addresses the previous bias in the provision of funding for education towards specialized secondary education and includes important policy innovations such as teacher incentives and greater involvement of locally elected school boards. Further lending support for the sector during the CAS period is not excluded, but would be decided on the basis of initial results achieved under the recently started project. AAA is envisaged in support of the Government's priority regarding the need to improve vocational education and training and better align it to the existing and future needs of the job market.

93. In the area of **social protection**, the WBG will offer to work closely with the authorities to further strengthen targeting. The first years of the proposed CAS will be limited to analytical work, and only in case of mutual agreement the Bank may consider preparing a lending operation in this area.

Pillar IV: Environmental management, disaster risk management and global goods provision

94. **Environmental Management.** As highlighted in the country's National Environmental Action Plan, adopted in 1998, and subsequent environmental strategies developed for the country, the most important environmental challenges confronting

Uzbekistan are the pollution of soil, air, and water resources; reduced flora and fauna; and inadequate management of industrial, hazardous, and municipal solid waste. In addition, low water use efficiency has caused widespread waterlogging and soil salinization. In recognition of these challenges confronting Uzbekistan, the Bank will support the Government's two new programs promoting environmental sustainability: the Environmental Security Strategy of the Republic of Uzbekistan and the National Strategy for Renewable Energy Sources.

95. In the context of AAA, the Bank will work with Government and other stakeholders to identify specific areas in these strategies that can be supported in the coming years. Cooperation modalities explored will include World Bank loans and Global Environment Facility (GEF) and carbon finance resources. In the case of the latter it is notable that there is very strong demand from government officials to build on previous work on carbon finance²⁶. Second, building on the Bank's earlier involvement addressing poorly managed municipal solid waste, and an IDF Grant in strengthening the country's environmental management institutions, the Bank will consider providing TA to strengthen the management of industrial and hazardous waste (industrial, medical) and identify investment needs. Third, the Bank may also support the Government in addressing threats to public health and the environment from persistent organic pollutants (POPs) Uzbekistan would be eligible for GEF grant funds for the preparation and implementation of a plan to manage POPs if it decided to ratify the Stockholm Convention on POPs.

96. **Disaster Risk Management, Weather Forecasting, and Adaptation to Climate Change.** It is estimated that two thirds of Uzbekistan's population and economy are at risk from at least two disasters, such as earthquakes, floods, droughts or landslides – the poor being disproportionately vulnerable to them. Climate change is expected to exacerbate natural disasters associated with hydro-meteorological conditions, with associated damages particularly impacting the rural economy. Since reducing environmental disasters is key to reducing macro-economic risks and improving welfare, the Bank will support activities to prevent, mitigate and adapt to disaster and climate change risks, through AAA and mainstreaming in investment projects. These may include drought proofing of agricultural activities, modernizing "Hydromet" services, and reducing financial vulnerabilities of the economy and the population to the adverse impacts of disasters and climate change through market-based risk transfer mechanisms (such as catastrophe insurance and weather derivatives).

97. The Bank will also support the authorities' interest in achieving **energy efficiency, and developing pilot renewable energy investments**. The introduction of energy-efficient technology would contribute to helping industry meet environmental challenges and will assist in reducing losses in the electricity and gas systems and support increase of the financial viability of the electricity and gas utilities, in a socially responsible manner. Loss reduction would reduce the need of further tariff increases, and

²⁶ An IEG assessment in January 2007 gave the Bank's work on carbon finance the highest rating of all the ESW assessed. The government officials were consistent in their praise of the Bank's assistance with carbon finance as well as the quality and practicality of this assistance.

coupled with the design of an adequate social safety net will increase affordability and will alleviate the financial burden notably for the poor.

98. **Global Public Goods.** During the period of the ISN, the Bank strengthened its outreach and capacity building program on carbon finance related matters. During the CAS period, the Bank will work with the Government and project entities to develop the carbon projects that have been accepted and bring them to closure through signature of an Emission Reduction Purchase Agreement. While opportunities under the CDM mechanism are presently limited by the Kyoto commitment period and international uncertainties, the Bank's Carbon Partnership Facility (CPF)²⁷ provides significant opportunities in Uzbekistan to develop sectoral or programmatic carbon projects, particularly in the energy sector.

99. In partnership with agencies such as the World Health Organization (WHO), UNICEF, the Joint United Nations Programme on HIV/AIDS (UNAIDS) and others, the positive engagement with the Uzbek authorities experienced throughout the ISN on fighting communicable diseases will continue during the CAS period (e.g., avian influenza, animal health, TB and HIV/AIDS).

Regional Cooperation

100. Specifically during the period of the CAS, it is envisaged to support a number of activities through CAREC (Transport and Trade Facilitation, Energy), or in coordination with CAREC, in the case of some CAREC second tier activities such as regional public goods including cross-border environmental issues (water-energy and climate change impacts), communicable diseases, and disaster management. On water, energy and related regional issues the following activities are contemplated: (i) an Independent Assessment of the Regional Impacts of Vakhsh River Basin Development (to start in May 2008), (ii) An Action Plan for Improving Weather and Climate Service Delivery (Hydromet) in Central Asia (started in March 2008), (iii) A Roadmap for Adaptation to Climate Change in the Amu Darya River Basin (to start in May 2008), (iv) possibly, a Regional Disaster Risk Management and Adaptation Program.

VI. MONITORING IN A RESULTS FRAMEWORK

101. The Bank's AAA and project supervision and preparation work during the initial CAS period will be closely tied to the results framework contained in Annex 1. Table 4 summarizes the main elements of the results-based framework agreed between the WBG and the GoU. It lists the main development outcomes which the CAS aims to influence over the longer term, the principal problems or challenges in reaching those outcomes, and the shorter term outcomes that the CAS is designed to contribute to directly over the period of its implementation.

²⁷ The CPF was approved by World Bank's Board on September 25, 2007 and takes a step towards implementation of large-scale and long-term greenhouse gas (GHG) emission reduction activities worldwide. It is also envisaged that the CPF will include a Carbon Asset Development Fund to support program development and preparation of necessary "carbon" documents.

Table 4: Summary of the Results Based Framework

Main Country Goals	Principal Problems	Outcomes to be Influenced by WBG Support
Goal I: Enabling environment for shared growth		
Maintain prudent macroeconomic management and make growth more pro-poor	<ul style="list-style-type: none"> Capacity constraints, both institutional and technical Inadequate Monitoring and Evaluation system for WIS implementation 	<ul style="list-style-type: none"> Macroeconomic policy formulation is informed by enhanced analytical research and international experience The Government is equipped with a M&E system
More effective service provision	<ul style="list-style-type: none"> Lack of transparency in PFM Insufficient accountability to citizens for the quality of public service delivery 	<ul style="list-style-type: none"> PFM reform is informed by good international practice by PEFA type assessments Civil society has better access to information on public services
Improve the business environment	<ul style="list-style-type: none"> Substantial state control over economy 	<ul style="list-style-type: none"> Government implements a system of screening legislation for its impact on the private sector
Goal II: Increase income and economic opportunities in rural areas		
Increase agricultural productivity and farmers incomes	<ul style="list-style-type: none"> Cotton and wheat – dominant crops and subject to state order system Stagnating cotton yields Poor rural financial services High net taxes on agriculture Poor state of irrigation system 	<p>Increase incomes for rural population resulting from increased productivity of farming through:</p> <ul style="list-style-type: none"> Improved irrigation and drainage system Improved soil quality as measured by: Include the international price of by-products to establish the state procurement price for cotton Increased capacity and financial viability of the WUAs
Goal III: Improve service delivery		
Increased access to safe water	<ul style="list-style-type: none"> System deterioration Incomplete coverage Unsustainable financing 	<ul style="list-style-type: none"> Improved access to safe and sustainable water services through technical (upgrading treatment plants, replacing pipes), financial and institutional measures Sustainable plan adopted for municipal water services
Improved health indices particularly in rural population	<ul style="list-style-type: none"> Inefficient hospitals Poor health equipment, practices and training Poor diet and nutrition 	<ul style="list-style-type: none"> More efficient financing mechanisms Improved health in targeted areas through better equipped health clinics with better training Improved access to fortified foods
Increase access to quality basic education	<ul style="list-style-type: none"> Teachers have inadequate supplies of teaching materials and resources and do not use advanced teaching technologies widely enough 	<ul style="list-style-type: none"> Improved learning in targeted areas through new teaching materials and resources for the teachers as well as improvement of teacher training system
<ul style="list-style-type: none"> Goal IV: Environmental management, disaster risk management and global goods provision 		
<p>More efficient use of natural resources</p> <p>Improved disaster risk management</p>	<ul style="list-style-type: none"> Excessive water use and water logging in agriculture Uncontrolled municipal solid waste and industrial waste disposal Energy inefficiency and emission of greenhouse gases Vulnerability to disaster, weather risks and climate change 	<ul style="list-style-type: none"> Rehabilitation of irrigation & drainage works & increased water use efficiency; strengthening of river basin organizations & WUAs Reduced environmental risks from poorly managed municipal and industrial waste, & POPs Mobilize carbon finance resources in support of energy efficiency & loss reduction (incl. gas flaring) Strengthen capabilities to prevent, mitigate and adapt to disaster risks and climate change

102. In addition, for each ongoing and new project, a monitoring framework will be designed that specifies how progress will be measured, how implementation risks

particularly in the fiduciary area will be mitigated, and how the benefits of Bank lending for the people of Uzbekistan will be verified. The results framework will be further refined during the course of CAS implementation. Progress on results, measured against a set of target outcomes and implementation milestones, as well as the lending program for the next FY, will be reviewed with the Government at the time of the annual CPPR.

103. Building on work undertaken in the context of the existing portfolio, the results-based approach of the CAS will focus attention in all interventions on defining and achieving measurable outcomes. In this regard, the CAS will contribute to improved monitoring of service delivery standards, greater accountability at the point of delivery and feedback to allow for corrections and policy improvements. The WBG will seek to involve civil society as much as possible in its monitoring and evaluation work, making use of social and beneficiary assessments and consulting with all stakeholders on project outcomes. The focus on results will be supported by institutional support for the WIS implementation. This aims to build capacity in the Government for monitoring and evaluation, including through greater stakeholder and beneficiary group participation. It will also act as an instrument for the monitoring of outcomes under the CAS. The WBG will leverage its capacity building work in this area with additional donor funds.

104. The achievements of the results matrix will be discussed with the Government on an annual basis during the annual Country Portfolio Performance Review (CPPR) (carried out jointly with ADB during the last two years). The mid-term review would be another opportunity to review progress towards agreed results, and also to consider any appropriate adjustments to the CAS. To facilitate this process, the Bank will engage in ongoing training and capacity building of key Government counterparts. Monitoring of portfolio performance will be done through two main channels. Firstly, the established regular meetings of a Joint Technical Working Group between the Government and the Bank's Country Office will provide day to day support in resolving systemic and project specific issues. Secondly, the Bank will also seek to consult at regular intervals with project beneficiaries and wider stakeholders on the outcomes of its interventions, including the involvement of NGOs. Such an iterative process is necessary to ensure improvements in several areas such as establishing a reliable baseline for monitoring.

VII. POTENTIAL RISKS AND MITIGATION MEASURES

Fiduciary Risks

105. **Uzbekistan made some good progress in public financial management through the introduction of a modern treasury system, which will greatly improve financial reporting and transparency for the use of public resources.** With support from an IDF grant, the Ministry of Finance is also implementing a project aimed at establishing an institutional framework for modern internal audit function. Uzbekistan, however, has a centralized power structure with few checks and balances. The CFAA of 2004 indicated that there were significant risks that budget funds may not be used for their intended purposes due to the fragmentation and opacity of the budget. While there has been some progress in reducing the fragmentation of the budget, and certain increase in transparency since then these problems persist. It will be a challenging task for the

Bank to implement any broad-based reforms in improving governance and accountability. Nevertheless the active Uzbek participation in PEM-PAL activities and the moves towards reform of the budget and treasury systems indicate that engagement through a PEFA (Public Expenditure and Financial Accountability) type assessment, under the PPER, could be productive and move forward the public finance reform agenda in a manner consistent with the authorities' vision. The CAS strategy also proposes to engage the government in improving financial management and governance at sector and project levels, involving the civil society to play some role, where feasible.

106. Fiduciary risks remain high due to weak public finance management capacity and inadequate accountability mechanisms, including particularly the lack of an effective independent external audit function in public expenditure management. At the project level, the CFAA noted that the key financial management weaknesses are weak budgeting and internal control structures within PIU's (and also public bodies), which is partly the result of the lack of skilled staff. Nevertheless despite these weaknesses, project financial management arrangements have been judged to be satisfactory. In addition, the 2003 CPAR noted that the public procurement framework in Uzbekistan suffers from a multiplicity of uncoordinated regulations, a lack of transparency in the whole process and in particular in bid opening, with a large potential for petty corruption. Moreover one of the major obstacles to transparent procurement has been the process of price verification of winning tenders.

107. The WBG will continue to use and improve the current systems to implement on-going projects. Financial management arrangements for new projects would build on the lessons of existing practices but would be cautious in any move to make use of country systems. Such a move would be gradual, but would accelerate depending on demonstrable commitment by the authorities to strengthen public financial management systems and accountability mechanisms. The CFAA and the CPAR identified broad weaknesses in public financial management and procurement arrangements which indicate high fiduciary risk. They also identified broad (and probably impractical) reform agendas with little government ownership. Nevertheless, progress is being made with budgeting and financial management under the reforms linked to the establishment of the Treasury.

108. The WBG will focus on building in accountability mechanisms at a sectoral and project level, identifying issues of efficiency which can be addressed through greater accountability (as was shown by the governance assessment of the health sector). Thus Project implementation arrangements would seek to strengthen procurement procedures and to link project activities with development outcomes. The WBG will also develop new approaches towards discussing efficiency constraints related to procurement issues as part of its efforts to engage the Government on the importance of public procurement reform and the need to bring domestic practices more closely in line with accepted international standards. In the meantime, an internal Government circular has been developed with input from the WBG to try and smooth the process of contract registration and improve the cooperation between the PIUs and the Agency for Foreign Economic Relations, responsible for reviewing all foreign contracts with public entities.

Risks to Development Effectiveness

109. **The effectiveness of development assistance in Uzbekistan depends strongly on the maintenance of a good dialogue and common understandings between the Bank Group and the authorities in the agreed focus areas of the CAS.** A loss of such common understanding as a result of a stalling of even the gradualist reform process could potentially reduce the effectiveness of assistance in achieving development goals. To ensure the development effectiveness of the proposed program, all projects are assessed through a results framework and by beneficiary monitoring. The WBG will closely monitor CAS implementation and in case of adverse developments in broad policy fields or in project specific areas, which may put at risk the development effectiveness of the program, will reassess the level and focus of its engagement. Among current areas of concern in this area is the impact of recent Decrees that are seen as moving the legal framework of Uzbekistan away from an internationally recognized AML/CTF regime and has the potential to cause difficulties in international banking relationships and to limit the range of foreign investment available to the country, including from the IFC.

Exogenous Risks

110. **The continued tensions over the use and exchange of energy and water have the potential to undermine trade and economic cooperation between Uzbekistan and its neighbors.** In particular concerns about the use of water by Tajikistan and Turkmenistan could lead to a deterioration of relations. A fall in regional growth and the potential outlet for rural migration could feed tensions and become linked to growing political extremism (or at least the fear of such extremism by the government). The result would likely be increasing the isolation of the Uzbek government. Further risks include a deterioration of the security situation in Afghanistan and the increased trade in drugs.

111. **Uzbekistan's vulnerability to exogenous economic shocks.** Economic performance over the past few years has been strong. Nevertheless, the reliance of the country on high commodity prices, as well as on the demand for goods and labor from its rapidly growing partners, whose continued high growth is itself highly dependent on continued high commodity prices, represents a potential risk for the future.

112. **The existence of exogenous risks could threaten internal political stability and security.** In addition to presenting a direct threat, these tensions may generate a government's response in which moves towards economic freedom are reversed, and political activity focuses on maintaining power and security rather than economic development.

113. **Managing risks will require that the Bank Group work cooperatively with the Uzbek Government to encourage Uzbekistan's continued international engagement and integration.** Given the very high level of uncertainty in the region, this CAS is perhaps best seen as setting out a broad engagement strategy rather than as a detailed blueprint for Bank Group support, which would in any case imply a return to the failed conditionality of the past.

Natural Disaster Risks

114. **Uzbekistan has faced severe natural disasters in the recent past**—drought of 2000/2001 affected 1.1 million and an earthquake in 1992 affected about 50,000 (EM-DAT 2008). About two thirds of the population as well as about two thirds the GDP are at economic risk from two or more hazards (WB/Columbia University 2005). The previous CAS progress report draws several lessons pertinent to Disaster Risk management (DRM) in the country, for example, the Rural Water Supply, Sanitation and Health (RWSP), which was used effectively as a tool for disaster mitigation during the drought of 2000/2001, and in mitigating the environmental consequences of the Aral Sea disaster. The current CAS has recognized these lessons and has clear linkages to the agenda of DRM in Uzbekistan through several projects such as the Drainage, Irrigation and Wetlands Improvement (Phase I) project, and new AAAs such as the Disaster Risk Mitigation and Adaptation, Climate Change Mitigation and Adaptation.

ANNEX 1: Results Matrix

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
PILLAR 1. Enabling environment for shared growth				
Institutional support for WIS implementation and Promoting Good Governance				
Maintain macroeconomic stability <u>Contain inflation:</u> Baseline (IMF): 12% (2007) (Official government figure is 6.8%) Target: 6 % (2008-2011) <u>Reduce poverty rate:</u> Baseline: 25% (2006) Target: 20% (2010)	Capacity constraints, both institutional and technical Limited exposure to broad international experience Shortcomings in assessment of non-income dimensions of poverty Inadequate Monitoring and Evaluation system for the WIS implementation	Macroeconomic policy formulation is informed by enhanced analytical research and international experience and shows ability to respond adequately to internal or external shocks The Government adopts techniques consistent with international practice in carrying out and analyzing Household Budget and Labor Force Surveys The Government is equipped with a M&E system for assessing implementation of the WIS and adapting it where necessary.	Constructive dialog with the authorities takes place on macroeconomic policies to ensure that aggregate demand is consistent with macroeconomic stability, and potential external shocks to the economy The government provides timely access to official statistic data and carries out joint analytical work with the WBG <i>WIS monitoring framework</i> is developed and implementation started; Improved statistical indicators integrated in WIS M&E process	Core Macroeconomic Dialogue Growth vulnerability assessment, under the Programmatic CEM AAA Dialogue on Poverty trends AAA Dialogue on Social Protection targeting AAA IDF grant on Monitoring and Evaluation (ongoing) Just in time assistance in WIS implementation support <u>Partnership:</u> IMF, UNDP, ADB
<u>Increase the Efficiency of Public Financial Management</u> <u>More Effective Service Provision</u>	Lack of transparency in PFM Insufficient accountability to citizens for the quality of public service delivery	Aspects of Public Financial Management reform process are benchmarked by PEFA type assessments Increased transparency in the utilization of public resources as measured by:	Agreement is reached on benchmarking elements of the PFM system and the reform process, including a possibility of a joint PEFA assessment Treasury uses good practice tools to manage expenditures	Programmatic PER Guidance and TA support for Treasury implementation

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
	<p>Low transparency, high secrecy and self-censorship</p>	<ul style="list-style-type: none"> • Regular publication of summary Budget implementation reports <p>Government implements first stages of Internal audit reform documented in a coherent Internal audit strategy based on good international audit practices</p> <p>Government adopts and begins to implement formal economic appraisal methodology for large investment projects</p> <p>Government adopts new accountability mechanisms on a pilot basis as a result of common work on Governance challenges in service delivery</p> <p>Dialogue on Governance challenges progresses and is gradually extended from sector specific to broader common issues</p> <p>Civil society has better access to information on in a least on major public service</p>	<p>Development of Internal Audit Strategy and a comprehensive internal audit manual</p> <p>Training activities to enhance capacity for modern internal audit techniques tested through pilot audits</p> <p>Up to 20 officials exposed to and obtain knowledge of economic appraisal techniques for investment projects.</p> <p>Primary Health Care Governance assessment findings are <i>widely disseminated</i> and <i>set of actions</i> to implement the findings are agreed and implemented</p> <p>Governance assessment carried out in at least one other key public service delivery sector and results are disseminated</p> <p>Results of the Primary Health Care Governance assessment and other Governance assessments are publicly available</p>	<p>IDF Grant on External and Internal Audit (ongoing) in conjunction with the PPER (see also above)</p> <p>Just in time assistance in WIS implementation support</p> <p>Dialogue on Good Governance to improve public service delivery AAA (e.g. Education/Hospitals and/or municipal services sectors)</p> <p>Follow-up dialogue based on results of Governance assessment in the Primary Health sector</p> <p><u>Partnership:</u> IMF, UNDP, ADB</p>

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
Private Sector Development, Business Environment and Investment Climate				
<p><u>Improve the business environment</u></p> <p><u>Increase investment-to-GDP ratio</u></p> <p>Baseline: 18.6% GDP (2006) Target: 24% GDP (2010)</p> <p><u>Increase share of SME in GDP</u></p> <p>Baseline: 42.1% GDP (2006) Target: 52% GDP (2010)</p>	<p>Substantial state control over economy Unstable and non-transparent regulatory and tax environment</p> <p>Significant de facto controls over financial system, cash transactions, foreign currency convertibility</p> <p>Low public confidence in banks, in spite of recent improvements, partly due to their performance of non-banking functions.</p>	<p>Government adopts and implements a system of screening legislation for its impact on the private sector and at least 4 pieces of legislation approved through the new system as measured by:</p> <ul style="list-style-type: none"> SMEs report easier compliance with tax legislation and less harassment from the authorities, as measured by the IFC BEE survey 	<p>Introduction a screening mechanism for policy proposals affecting businesses</p> <p>Reducing tax compliance costs for businesses through changes in Tax Code</p> <p>Law prepared in consultation with the IFC PEP team “On Permits” is passed</p> <p>Law prepared in consultation with the IFC PEP team “On Credit Information” passed</p> <p>Annual SME surveys are conducted</p>	<p>Private sector investments by IFC.</p> <p>IFC PEP TA on BEE (active) Dialogue on Private Sector reform and development</p> <p><u>Partnership:</u> IMF, EBRD, IFC</p>
<p><u>Increase share of private sector</u></p> <p>Baseline: 45% GDP (2006) Target: >45% GDP (2010)</p>	<p>Low risk management in banks</p> <p>Laws, regulations, and infrastructure generally sound, but implementation weak</p> <p>Weak accounting in SMEs limits quality of information for banks</p>	<p>Enterprises and financial institutions have greater control in financing, as measured by SME survey</p> <p>Government policy is informed by agreed assessments of financial sector performance</p>	<p>Mandatory deposits of cash receipts by enterprises are relaxed; the distinction between cash and non-cash payments is reduced</p> <p>Non-banking functions (including tax collection and non-essential reporting requirements) are eliminated in practice, as measured by SME survey</p> <p>Action plan to further improve accounting and auditing practices is developed and implementation started</p> <p>Increase exposure to international best practices in risk management, microfinance, and/or credit scoring</p> <p>Finalization of plan to bring strategic investor into Asaka Bank and announce tender</p>	<p>Follow-up dialogue based on results of Accounting and Auditing ROSC (active) IFC PEP TA on leasing, financial infrastructure and housing finance (active) IFC advisory services on Banking Association on its credit bureau, and with the Insurance Supervisor on an insurance glossary – might want to confirm with IFC. Dialogue on Financial Sector reform and development</p> <p><u>Partnership:</u> IMF, EBRD</p>

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
	Low supervision capacity for insurance sector			
<i>Potential program: IFC's support of state bank privatization program, IFC's involvement in housing finance TA, IFC investment projects oil and gas subject to disclosure of revenue payments made to the government, WB/IFC support for introduction of PPP in infrastructure AAA</i>				
PILLAR II INCREASE INCOME AND ECONOMIC OPPORTUNITIES IN RURAL AREAS				
<p>Increase productivity of agriculture</p> <p>Increase farmers' incomes</p> <p>Increasing efficiency, effectiveness and environmental sustainability of irrigation and soil improvement</p>	<p>Cotton and wheat – dominant crops and subject to state order system</p> <p>Stagnating cotton yields</p> <p>Poor rural financial services</p> <p>High net taxes on agriculture</p> <p>Food safety certification obstacle to export of selected agriculture products</p> <p>Administrative and volatile obstacles to exports</p> <p>Poor state of irrigation system</p> <p>Land degradation and soil erosion</p> <p>Excessive water use and water logging</p> <p>Land degradation and soil salinization</p>	<p>Increased incomes of rural population through:</p> <p>1. Increased productivity of farming in a total area of 2 million ha as measured by:</p> <p>Yields of cotton, wheat, potatoes, fruits and vegetables, and silage corn</p> <ul style="list-style-type: none"> • Improved irrigation and drainage system for rural producers - Area of irrigated land with adequate water supply is increased by 40,000 ha (RESP II area) - Area of irrigated land with adequate drainage is increased by 30,000 ha (RESP II area) - Area of irrigated land with adequate irrigation and drainage facilities is increase by 100,000 ha (Fergana Valley) • Improved soil quality as measured by: - Water table below the ground 	<p>Support to build capacity of the newly independent farmers in seven provinces</p> <p>Achievement of accreditation of one food laboratory</p> <p>Rehabilitation of irrigation and drainage facilities in selected areas</p> <p>Rehabilitation of selected drainage networks</p> <p>Implementation of the project on drainage diversion in priority areas</p> <p>Strategy for raising efficiency in water use is developed</p>	<p>Rural Enterprise Support project RESP I (active) and II</p> <p>Agriculture review ESW</p> <p>Small towns/rural communal services project (FY10-11)</p> <p>IFC 1) agribusiness through banks, possibly with IDA support; 2) support for access to microfinance in rural areas; 3) private agribusiness projects</p> <p>Water Sector Investment Planning study ESW (active)</p> <p>Drainage, Irrigation and Wetlands Improvement project - I (active)</p> <p>Fergana Valley Water Resources Management project (FY09)</p> <p><u>Partnership:</u> ADB, UNDP, USAID, IFC ICARDA, IWMI, SDC/SECO, KfW</p>

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
		<p><i>Baseline: 1.5 m (2007)</i> <i>Target: > 2.0 m (2010)</i></p> <p>2. Enhanced farm access to commercial financial services in seven provinces as measured by: 500 new microcredit lines</p> <p>3. Including the international price of by-products such as vegetable oil to establish the state procurement price for cotton</p> <p>Capacity and financial viability of the Water User Associations is enhanced as measured by:</p> <ul style="list-style-type: none"> - Increase amount of maintenance conducted by these WUAs from 30% to 45% - Increase water fee collection from 15% to 30% 	<p>Introduction of improvements and reduction of advance requirements in the commodity exchange</p> <p>Adoption of a resolution allowing farmers to market above state-quota cotton within the RESP II area</p> <p>Financial and institutional support is provided to 84 Water User Associations (WUAs)</p>	
<p><i>Potential program: IFC's support to establish new micro-finance lending institution in rural area, Cultural Tourism and Heritage Protection Project/ESW (FY10-11), ESW/JSDF on Youth Development, Irrigation Infrastructure project(s)</i></p>				

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
PILLAR III. Improved human development and social protection through improved basic services delivery				
Improved provision of safe water and sanitation				
<u>Increased access to safe water</u> Baseline: 80% (2006) Target: 86.8% (2010)	Safe water unavailable or unsustainable due to: <ul style="list-style-type: none"> - System deterioration - Incomplete coverage - Unsustainable supply due to lack of financial resources 	Improved access to safe and sustainable water services in existing and future project areas measured by: <ul style="list-style-type: none"> - Increased proportion of population in the project areas with access to safe water - Higher average quality of water in project areas by (WHO/National standards) - Better financial performance, cost-recovery, billings and collection 	Treatment plant upgraded in Nukus and Urgench, Treatment plan design completed and work commissioned in B&S Replacement or rehabilitation of desalination plants in Karakalpakstan and Khorezm Pipe replacement in relevant areas	Bukhara-Samarkand Water Supply Project (active) Rural Water Supply Project (active) Municipal Infrastructure management AAA Policy Note and TA dialogue on development of PPP approach in municipal services Municipal Services Project (FY10)
Improved health indices				
<u>Improved health status, particularly among the rural population</u> <ul style="list-style-type: none"> - Infant mortality per 1000 live birth Baseline: 14.9 (2005) Target: 12 (2010) - Maternal mortality per 100 thous. live-birth Baseline: 29.2 (2007) Target: 24 (2010) 	Hospitals consume a large share of public health budget and their funding is still capacity and input based, leading to inefficiencies. However reforms are underway to introduce case-based funding . Insufficient medical supplies and equipment and lack of experienced professional staff impacting the quality of treatment. Little implementation of evidence based medical	Access to quality Health Care enhanced through: <ul style="list-style-type: none"> • Output based financing of hospitals introduced as measured by: <ul style="list-style-type: none"> - Number of CRHs using case-based financing <i>Baseline : 0% (2007)</i> <i>Target: 100% in at least 1 oblast (2010)</i> • Increased financing for primary and - outpatient services as measured by: <ul style="list-style-type: none"> - % of health budget expenditures on PHC and outpatient care <i>Baseline – 43% (2007)</i> 	Output based financing for hospitals introduced in all CRHs in at least 1 oblasts Increasing number of Evidence-Based Medical guidelines used by GPs. Increased financing and use of primary and outpatient services Pooled contracting for drugs for SVPs introduced.	Health II project (active) National Flour Fortification Project (GIAN-financed) Health III project with focus on CRHs (FY10-11) Poverty Work AAA Nutrition Sector/ Food safety AAA <u>Partnership:</u> ADB, USAID, WHO, UNICEF

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
	<p>practices.</p> <p>The procurement of drugs and medical equipment is not “best practice” in terms of efficiency and transparency. Diseases related to failure to fully adhere to the principles of healthy nutrition and food safety regulations.</p>	<p><i>Target – 50% (2010)</i></p> <ul style="list-style-type: none"> - % of SVPs stocked with essential medicines <i>Baseline – 45% (2007)</i> <i>Target – 60% (2010)</i> • Increased utilization of primary care services <ul style="list-style-type: none"> - % of women who receive antenatal care in the early stage of pregnancy (up to 12-week pregnancy period) <i>Baseline – 85% (2007)</i> <i>Target – 95% (2010)</i> • Anemia in fertile age women is decreased <ul style="list-style-type: none"> The baseline 60% Target 48% 		
<p><u>Reduced health risk from global pandemic</u></p> <p>– HIV/AIDS prevalence</p>	<p>Inadequate in-country capacity to quickly diagnose and respond to risks of global pandemic.</p> <p>Threat to overall health due to rapidly rising HIV and TB infections</p> <p>Insufficient level of public awareness of measures of HIV and TB prevention</p>	<p>Health risk from global pandemic is reduced through:</p> <ul style="list-style-type: none"> • Improved HIV/AIDS prevention and control <ul style="list-style-type: none"> - Number of HIV-ve children born to HIV+ve mothers <i>Baseline: 60%(2007)</i> <i>Target: 85%(2010)</i> - % of HIV +ve pregnant women receiving ARV prophylaxis of vertical transmission of HIV <i>Baseline: 90%(2007)</i> 	<p>Reduction in mother to child transmission of HIV/AIDS</p> <p>100% coverage of HIV+ve positive pregnant women with ARV treatment.</p>	<p>Avian Flu grant project (active, grant)</p> <p>CA AIDS Control project (active, regional grant)</p> <p>Health II (IDA grant for HIV/AIDS)</p> <p><u>Partnership:</u> FAO, WHO</p>

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
	<p>Inadequate veterinary services and food safety</p> <p>Insufficient incentives for animal owners to report diseases</p>	<p><i>Target: 100%(2010)</i></p> <ul style="list-style-type: none"> - % of HIV +ve women receiving ARV treatment among those voluntarily requesting treatment <i>Baseline: 70%(2007)</i> <i>Target: 100%(2010)</i> • Improved seasonal influenza prevention and control <ul style="list-style-type: none"> - Percentage of population at risk vaccinated <i>Baseline: 50%(2007)</i> <i>Target: 100%(2010)</i> <p>Number of AI diagnostic tests carried out annually on animal and human samples</p>		
Improved basic education and learning				
<p><u>Increase access to quality basic education:</u></p> <p>– Improved learning achievements</p> <p>Baseline: NA</p>	<p>Inadequate availability of basic teaching and learning materials</p> <p>Poor children have less access to learning materials</p> <p>Learning achievement is deficient because some teachers lack knowledge of effective teaching practices</p> <p>Ineffective learning due to lack of cooperation between parents and</p>	<p>Schools adopt quality enhancing techniques, materials and participatory practices as measured by:</p> <ul style="list-style-type: none"> - % of schools where core set of educational materials is available <i>Baseline: 10% (2007)</i> <i>Target: 80% (2011)</i> - % of retrained teachers in project schools <i>Baseline: 5% (2007)</i> <i>Target: 70% (2011)</i> - % of project schools with active boards <i>Baseline: 75% (2007)</i> 	<p>Increased availability and use of teaching and learning materials</p> <p>Teachers in project schools retrained in interactive teaching methods through school-based teacher training</p> <p>Activation of participation of School Boards and local community involvement in project schools.</p> <p>An assessment tool for standardized student assessment is developed and implemented.</p>	<p>Basic Education Project I (active)</p> <p>Basic Education Project II (FY09)</p> <p>Education AAA</p> <p><u>Partnership:</u> ADB, UNDP, UNICEF, SECO, KfW, JICA, JBIC</p>

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
	teachers Although all the issues above are being addressed by Government with the support of the BE project.	<i>Target: 85% (2011)</i>		
PILLAR IV. ENVIRONMENTAL MANAGEMENT, DISASTER RISK MANAGEMENT, AND GLOBAL GOODS PROVISION				
Improving municipal solid waste management	Technical, institutional and financial capacity constraints	Municipalities in project cites improve collection, transfer and safe disposal/treatment of solid waste , as measured by internationally recognized indicators and standards	Investment needs for waste disposal improvement are identified Solid waste collection and disposal improvements in project cities are initiated	ESW to identify investment needs Industrial and Hazardous Waste Management TA (follow up to IDF grant on improving environmental management institutions) Small towns/rural communal services project (FY10-11) Municipal Services Project (FY10)
Improvement of energy efficiency	High losses in electricity and natural gas sectors and unreliability of supply in rural areas	Awareness on energy savings and renewable energy supply sources is enhanced in selected remote areas: - Number of Public service buildings in rural/remote areas equipped	Pilot introduction of alternative energy sources in health and education facilities in some remote areas Support to improvement of legislation on energy use Financial viability of energy companies further improved	Energy saving and renewable energy AAA
Reducing greenhouse gas emissions	Significant gas flaring High technical losses in the gas and electricity distribution networks	Reduction of greenhouse gas emissions as measured by: • Emissions: <i>Baseline: 121 mln. tons CO₂(2004)</i> • Intensity: <i>Baseline: 2686 tons CO₂ per mln. 2000 ppp US\$ GDP (highest in ECA)</i>	Assistance to GoU to attract carbon revenues for eligible projects under the CDM of the Kyoto Protocol Agreement on the portfolio of CDM projects under CDM Funds utilization of the Kyoto Protocol is signed	Carbon Finance Shurtan Gas Flaring Reduction project (active) Carbon Partnership Facility (CPF): sectoral or programmatic carbon project(s) (FY09)

Country Development Goals	Issues and Obstacles	CAS Outcomes/Measurement indicators	Milestones	Bank program
			Increased portfolio of CDM projects under the Kyoto Protocol as measured by: - Number of signed agreements	
Improved environmental and disaster risk management	Analytical and technical capacity to analyze and evaluate environmental impacts	Government adopts improved environmental management practices and capacities by: - Strengthening of policies and Institutions for environmental sustainability (institutional context components)	Number of constructive dialogues with authorities and donors on Disaster Risk Management and climate change adaptation Assessment of the climate change impact and its implications for irrigation and rural poverty Preparation of the inventory of persistent organic pollutants and implementation plan for safe storage/management	Regional Water-Energy dialogue ESW/TA (regional program) Disaster risk mitigation and adaptation AAA (regional program) Climate change mitigation and adaptation in the Syr Darya and Amu Darya River Basins AAA (regional program) Persistent organic pollutants (POP) and environmental liabilities ESW/TA (regional program) <u>Partnership:</u> ADB, UNDP, IWMI, CAREC, UNECE
Potential program: CF Solid waste project, CF Tashkent Combined Cycle Gas Turbine project, CF UzTransGaz (gas transmission) project, CF Gas distribution leakage reduction project, Energy efficiency / renewable project, or as component(s) of other investment projects (health/municipal services) (FY10-11), CF Gas distribution leakage reduction project, GEF Hydromet/Agromet ESW (regional program), GEF Past Environmental Liabilities, Environment ESW/TA (supporting CF and GEF projects).				

ANNEX 2: Matrix of Main Donor Activities in Uzbekistan for 2008-2010

Sector/Thematic Area	Donors' Activities
Agriculture and Natural Resources	<p>ADB: Loans: Ak Altin district Agricultural Development; Grain Productivity Improvement; Amu Zhang Irrigation Rehabilitation; Land Improvement; Agriculture Market Infrastructure Development; Agriculture Sector Development, Water Resources Management; Urban Water Supply, Western Uzbekistan Rural Water Supply; Kashkadarya & Navoi Rural Water Supply and Sanitation; Surkhandarya Water Supply and Sanitation. TA: Agriculture Review and Planning; Implementation and Monitoring of Policy Reforms in Agricultural Sector; Agriculture Market Infrastructure Development; Water Resources Management; Djizzak & Surkhandarya Rural Water Supply & Sanitation; Improved Water Resources Management (regional TA)</p> <p>EBRD: Investigates the possibility of working with foreign strategic partners in agro-processing and mining sectors as a way to promote foreign investment with introducing new technologies, enhancing business standards including adherence to international environmental standards. Loans: Microfinance loans to agribusiness: to small fruit and vegetable processing and other private food processing plants to expand their production capacities and increase market share. TA: Provision of credit adviser for local banks on allocation of credit lines.</p> <p>Islamic Development Bank: Loans: Rehabilitation of Irrigational Network and Drainage System in Jizzak and Syrdarya; Reconstruction of the main Irrigation Canals of Tashsaka in Khorezm Province. TA: Feasibility Study for Reconstruction of the main Irrigation Canals of Tashsaka in Khorezm Province</p> <p>EU/TACIS: Support to non-farm rural enterprises; agriculture information system; agriculture wholesale market development; solar heating plants</p> <p>USAID: Irrigation network management and on-farm water management activities; Agricultural linkages project</p> <p>UNDP: Feasibility studies of investment projects in irrigation</p> <p>JICA: Improvement of water management in agriculture; Improvement of water management of on-farm water-users association in Syrdarya and Tashkent provinces; Improvement of agricultural technology</p> <p>JETRO: Financing feasibility studies for Japanese companies on request in the mining and natural resources management (e.g. uranium and chemical products)</p> <p>Government of PRC: Reconstruction of irrigation objects; Training seminars and study tours to China on agriculture</p>
Education	<p>ADB: Loans: Education Sector Development Program; Textbook Development; Information and Communication Technology in Basic Education; Rural Basic Education; Basic Education Development. TA: Effective Management of Investments and Reforms in Basic Education; Rural Basic Education</p> <p>EU/TACIS: Vocational Education; University Networks; Restructuring of higher education (TEMPUS program) through financing grants to encourage interaction and balanced cooperation between universities in the partner countries and the European Community</p>

Sector/Thematic Area	Donors' Activities
	<p>KFW: Support to Vocational Education in construction and communal utilities sectors</p> <p>GTZ: Introduction of vocational training model, training of trainers at universities; Vocational Education and Training in agriculture, including in IT area</p> <p>SECO: Skills development project upscale in vocational education</p> <p>JICA: Vocational Education project</p> <p>UNICEF/UNESCO: Education Management Information System</p> <p>USAID: Basic Education support</p> <p>Government of PRC: Provision of ICT in Basic Education</p> <p>UNICEF: Early Childhood Development and Quality Basic Education</p> <p>Islamic Development Bank: Loan: Construction and Equipping of Secondary Schools</p> <p>JICA: Provision of scholarships to 20 students each year to study in universities on human resources development; Support to educational reform, retraining teachers to expand professional education</p>
Energy	<p>ADB: Loans: Regional Power Transmission Modernization; Navoi Thermal Power Plant Modernization; Gas to Coal Conversion of Novo-Angren TPP; Construction of “Kamolot” Hydropower Plant; Installation of Turbo-Tender Units at Talimardjan and Syrdarya TPPs; Tashkent City Street Lighting. TA: Navoi Thermal Power Plant Modernization; Gas to Coal Conversion of Novo-Angren TPP; Construction of “Kamolot” Hydropower Plant; Installation of Turbo-Tender Units at Talimardjan and Syrdarya TPPs; Tashkent City Street Lighting</p> <p>EBRD: Regional energy trade, energy-saving, metering</p> <p>JBIC: Thermal power</p> <p>UNDP: Assisting the Development of Biogas Technology in Uzbekistan; Clean Energy for Rural Communities in Karakalpakstan – Phase II; Renewable energy for rural communities</p> <p>Islamic Development Bank: Loan: 500KW Transmission Line of Guzar-Surkhan with autotransformer and two substations; 500 KW Sogdiana-Talimarjan Transmission Line and Substation</p> <p>Government of PRC: Construction of new power stations; Training seminars and study tours to China on power stations and electricity</p>
Environment	<p>ADB: Loans: Clean Development Mechanism. TA: Clean Development Mechanism; Greenhouse Development</p> <p>UNDP: Biosphere Reserve; Enhancement of Environmental Indicators Database with GIS application to monitor the state of the Environment in Uzbekistan; Conservation of Tugai Forests and Strengthening protected Areas System in the Amu Darya Delta of Karakalpakstan; Establishment of the Nuratau-Kyzylkum Biosphere Reserve as a Model for Biodiversity Conservation; Support to the Environment and Energy Interventions; Kyoto protocol energy issues and development of alternative sources of energy,</p>

Sector/Thematic Area	Donors' Activities
	<p>biogas/livestock technologies and new crops development</p> <p>UNEP: Elimination of ozone destruction materials</p> <p>SECO: Water Management and Disaster Risk Reduction</p> <p>GTZ: Stabilization of desiccated Aral Sea; Locust control</p> <p>JICA: Promotion of environmental protection through the establishment of an environmental monitoring system and waste processing; improving administrative capacity and technology relating to monitoring of natural disasters like earthquakes and landslides, provision of equipment and machinery</p> <p>JETRO: Kyoto protocol gas emissions reduction</p> <p>Government of PRC: Provision of diagnostic equipment for seismology and environmental monitoring points</p> <p>OSCE: Review of legal norms and their implementation in the area of transportation of toxic cargo and waste</p>
Gender and Development	<p>ADB, British Embassy, FINCA, NOVIB, JICA, IOM, Italian Embassy, Mercy Corps, OSCE, Embassy of Switzerland, USAID</p> <p>UNDP: Capacity Building of the Women's Committee in Uzbekistan; Preparatory Assistance: Gender and Development Project</p> <p>UNICEF: Family and Community Empowerment</p>
Governance	<p>ADB: Loan: Public Finance Management Reform. TA: Supporting Public Finance Management; Policy and Institutional Reform Support</p> <p>UNDP: Capacity building for civil society group; Improving Tax Administration in Uzbekistan; Reforming Tax System and Developing New Revision of Tax Code; Enhancing Legislative and Institutional Capacities of the Parliament, computers and software support to Parliament, and training; Enhancing the Capacity of the Ministry of Foreign Affairs to better respond to the Emerging issues of the new Millennium; Enhancing the Capacity of the University of World Economy and Diplomacy to Support the Foreign Policy of Uzbekistan; Improving Public Sector Management Skills through Building Training and Research Capacity of the State Academy for State and Public Construction under the President of Uzbekistan; Public finance reform, including introduction of MTBF, performance-based budgeting, and improvement of public procurement</p> <p>USAID: Grassroots efforts e.g. NGO development and civic advocacy, support for independent broadcast and print media, internet development, dialogue on judiciary law enforcement, judicial ethics, and judicial training; Support to anti-money laundering and anti-terrorism financing, border control and prevention of trafficking of people and illegal drugs SECO: Public Institutions and Services</p> <p>EU/TACIS: Enhancing the judiciary and rule of law, good governance, market regulatory reforms and building administrative capacity; Fight against terrorism, organized crime, drugs and human trafficking and corruption</p>

Sector/Thematic Area	Donors' Activities
	<p>UNICEF: Local Capacity Building in Management of Basic Service for Women and Children; Social Policy development, Advocacy and Social Monitoring</p> <p>Islamic Development Bank: TA: Capacity Building for the Information Support and Foreign Investment Promotion Agency “UzInfoInvest”</p> <p>GTZ: Legal reform (training of lawyers in economic legislation)</p> <p>JICA: Training of tax officials on improvement of tax administration</p> <p>OSCE: Development of website of the Ministry of Labor and Social Protection (jointly with Center for Economic Research)</p>
Health, Nutrition, and Social Protection	<p>ADB: Loan: Woman and Child Health Development</p> <p>UNFPA/UNDP/UNODC/UNAIDS: Strengthening capacity in Family Planning; Reproductive health services, HIV/AIDS, drug-related morbidity and mortality</p> <p>JICA: Supporting healthcare reform by improving nurse training, maternal and infant health; Study on the reform of healthcare services in Navoi province to improve organization of health services; Improvement of primary health care in Tashkent and Jizzak oblasts; Support to social empowerment of disabled people</p> <p>KFW: TB program V, reproductive health, contraceptives, mother and child</p> <p>GTZ: Family Planning</p> <p>UK-DFID: Capacity building for GP training and education program, technical assistance for medical education, nursing education</p> <p>EU/TACIS: Preventive health care</p> <p>GTZ: Family Planning</p> <p>SECO: Health Care Reform</p> <p>WHO: Reducing the burden of communicable diseases; reducing the burden of noncommunicable diseases (NCDs), mental disorders, violence and injuries and the related major risk factors; addressing issues in maternal, child and adolescent health; strengthening the key functions of the health system to improve its overall performance, with special emphasis on primary healthcare and greater equity in health, and mother and child health</p> <p>UNDP: Promotion of the rights of disabled individuals through sport activities</p> <p>UNICEF: Improvement of maternal and child health and nutrition; Child protection; Young People’s Health and Development; Training of medical personnel on new born child survival, improvement of statistics of child and maternal mortality rates</p> <p>Islamic Development Bank: Loan: Equipping Hospitals with Modern Medical and Diagnostic Equipment</p> <p>USAID: HIV/AIDS; Primary health care financial reforms under World Bank’s Health II; Infectious diseases treatment and Anti-tuberculosis</p> <p>Government of PRC: Provision of medical equipment for hospitals</p>

Sector/Thematic Area	Donors' Activities
Poverty Reduction/ Improvement of Living Standards	<p>UNDP: Regional development strategies, monitoring of MDG implementation, capacity building of the State Statistics Committee; Development of Capacities of the National Human Rights Institutions in Uzbekistan; Enhancement of Living Standards in Fergana Region; Enhancement of Living Standards in Karakalpakstan; Enhancement of Living Standards in Namangan region; Support to Welfare Improvement Strategy Process</p> <p>ADB: TA: Support of WIS Review and Preparation of the Next Stage WIS for 2011-2013</p> <p>EU/TACIS: Poverty alleviation/raising living standards and protection of vulnerable social groups, particularly through PRSP approaches</p> <p>UNFPA: Increase awareness of the linkages between population, development, gender and poverty and their integration into poverty reduction strategies (advocacy, gender equity and equality, data collection, improve national capacity in demography and statistics)</p> <p>OSCE: Trainings for “Mahalla” institutions on equitable distribution of social allowances among the population and prevention of misconducts in the area of financial management at mahalla (self-governing bodies) level; Social monitoring in rural areas of Karakalpakstan, including monitoring of effectiveness of microcredit provision (ordered by the Fund for Salvation of Aral Sea)</p>
Private Sector Development	<p>ADB: Loans: Small Enterprises and Microfinance Development. TA: Microfinance Development</p> <p>EBRD: Loans: Support to private sector investment and entrepreneurship through direct credits to local SMEs, microfinance loans through local banks for development of tourism, pharmaceuticals, cable production, telecom & media, non-banking financial institutions, light industry, and risk-sharing facility for local banks. TA: Enterprise management organization and innovation survey; creation of an association of private hotels</p> <p>USAID: Support to SME, microfinance development</p> <p>UNDP: Microcredit programs; Micro-credit development for income generation and job creation in the Kashkadarya province of Uzbekistan.</p> <p>SECO: Support to Private Sector, including financing of IFC PEP surveys of SMEs</p> <p>KFW: Small business development; Microfinance and Housing Finance loans</p> <p>GTZ: Private sector development in Andijan, Termez and Karakalpakstan</p> <p>JICA: Commentary on the law on bankruptcy; Business courses in Uzbekistan-Japan Center for human resources development</p> <p>JETRO: Provision of seminars and exhibitions on Uzbekistan for Japanese companies, identification of promising business projects for Japanese companies</p> <p>OSCE: Development of commercial arbitration; Protection of intellectual property rights; Protection of SMEs in light of anti-money laundering activities (jointly with UNDP); Support of private farmers in Ferghana and Bukhara provinces on timely provision of fertilizers, gasoline and other inputs through round tables with local banks, microcredit</p>

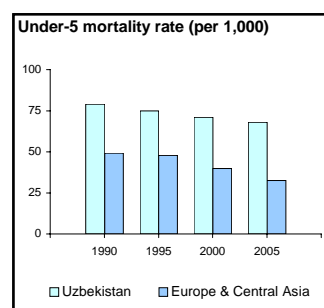
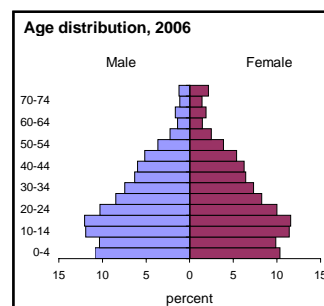
Sector/Thematic Area	Donors' Activities
	institutions, and offices of public prosecutor; Provision of information and trainings in support of development of ecological tourism and community-based tourism in rural areas of Surkhandarya, Djizzakh and Tashkent provinces
Policy Dialogue	<p>EBRD: Policy dialogue with the authorities on improvement of investment climate and supporting reform efforts. Monitoring of political and economic reforms in Uzbekistan</p> <p>USAID: Open dialogue on national democratic institute development</p>
Telecommunications	<p>EBRD: The Bank seeks opportunities to provide long-term financing to telecommunications and media private companies. This, however, is highly dependent upon improvements in the regulatory framework</p> <p>UNDP: Assisting the Government of Uzbekistan in the formulation and implementation of ICT for development policy; Capacity building for internet development in Uzbekistan – phase II</p> <p>Government of PRC: Provision of telecommunications equipment; Training seminars and study tours to China on transport and communications</p>
Banking Sector	<p>EBRD: Proactive approach towards the restructuring and privatization process of the Uzbek banking sector, with the ultimate goal of increasing the level of intermediation in the country. It will pursue this approach by working with Asaka Bank to create a demonstration case for successful restructuring and investment by a strategic foreign bank. Promoting competition in the banking sector through increasing the number of participating banks</p> <p>ADB: Equity: Equity Investments in two local banks. TA: Financial sector infrastructure development; Support banking sector development</p> <p>Islamic Development Bank: Loan: Second Line of Financing to the National Bank of Uzbekistan</p>
Infrastructure	<p>ADB: Loans: CAREC Regional Road; Railway Maintenance; Road Rehabilitation.</p> <p>TA: Regional Infrastructure (Roads); State-Owned Road Enterprises</p> <p>EBRD: Loan: Finalizing the Tashkent Water Supply Improvement Project. TA: Assistance to the MoF on communal services regulatory framework (duration 1.5 years). If management is to decide on having more TA to public sector, the main areas of TA would be grant financing of feasibility studies in communal utilities and financing of PIUs</p> <p>SECO: Basic infrastructure development in Energy and Water sectors</p> <p>JICA: Promoting the efficient use and maintenance of infrastructure by improving the management of public utilities, such as water and electricity supplies</p> <p>KFW: Loan and TA to support Electrification of railroad Tashkent-Angren; Water supply project</p> <p>Islamic Development Bank: Loans: Water Supply and Sewerage System in Tashkent; Construction of Water Supply and Ferghana and Margilan cities; Construction of Water Supply and Sewage Systems in Andijan and Urgench cities. TA: Feasibility Study for Water Supply and Ferghana and Margilan cities; Feasibility Study for Water Supply and</p>

Sector/Thematic Area	Donors' Activities
	<p>Sewage Systems in Andijan and Urgench cities</p> <p>UNDP: Feasibility studies of investment projects in sewage and other communal utilities</p> <p>JICA: Improvement of road maintenance and road administration</p> <p>Government of PRC: Water measurement equipment in urban water supply; Railway transportation machinery and equipment</p>
Regional Development	<p>UNDP: Regional development strategies</p> <p>JETRO: Strengthening of economic ties between the countries of Central Asia</p> <p>JICA: Regional development study in 10 districts of Karakalpakstan; Development of tourism and promotion of regional industries</p>
Trade and Investment	<p>UNDP: Capacity building and strengthening foreign trade and investment promotion institutions in Uzbekistan; Industrial policy development for EurAsEC trade and transport integration; improvement of public investment policy through capacity building and strengthening of investment cycle</p> <p>USAID: Support of accession to the WTO</p> <p>JETRO: Potential transportation projects in framework of CAREC activities</p> <p>OSCE: Support to regional trade development through surveys of business on non-official payments at customs (surveys ordered by Uzbek Ministry for Foreign Economic Relations, Investment and Trade)</p>

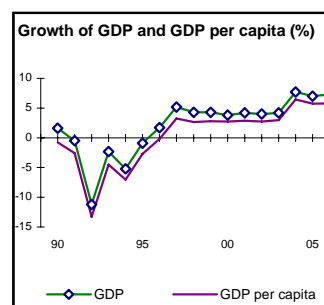
Uzbekistan at a glance

9/28/07

Key Development Indicators (2006)	Europe & Central Asia		
	Uzbekistan	Low income	Central Asia
Population, mid-year (millions)	26.5	2,403	460
Surface area (thousand sq. km)	447	29,215	24,114
Population growth (%)	1.4	1.8	0.0
Urban population (% of total population)	37	30	64
GNI (Atlas method, US\$ billions)	16.1	1,562	2,206
GNI per capita (Atlas method, US\$)	610	650	4,796
GNI per capita (PPP, international \$)	2,250	2,698	9,662
GDP growth (%)	7.3	8.0	6.8
GDP per capita growth (%)	5.8	6.1	6.8
(most recent estimate, 2000–2006)			
Poverty headcount ratio at \$1 a day (PPP, %)	...	..	1
Poverty headcount ratio at \$2 a day (PPP, %)	26	..	10
Life expectancy at birth (years)	67	59	69
Infant mortality (per 1,000 live births)	57	75	28
Child malnutrition (% of children under 5)	8	..	5
Adult literacy, male (% of ages 15 and older)	99	72	99
Adult literacy, female (% of ages 15 and older)	99	50	96
Gross primary enrollment, male (% of age group)	100	108	103
Gross primary enrollment, female (% of age group)	99	96	100
Access to an improved water source (% of population)	82	75	92
Access to improved sanitation facilities (% of population)	67	38	85



Net Aid Flows	1980	1990	2000	2006 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	..	62	186	172
<i>Top 3 donors (in 2005):</i>				
Japan	..	1	82	54
United States	..	1	36	38
Germany	..	0	9	17
Aid (% of GNI)	..	0.5	1.4	1.2
Aid per capita (US\$)	..	3	8	7
Long-Term Economic Trends				
Consumer prices (annual % change)	..	3.1	25.0	11.4
GDP implicit deflator (annual % change)	..	4.0	47.3	21.5
Exchange rate (annual average, local per US\$)	..	0.0	236.6	1,218.9
Terms of trade index (2000 = 100)	..	118	100	134
Population, mid-year (millions)	16.0	20.5	24.7	26.5
GDP (US\$ millions)	..	13,361	13,760	17,031
<i>(% of GDP)</i>				
Agriculture	..	32.8	34.4	26.1
Industry	..	33.0	23.1	27.4
Manufacturing	..	22.1	9.4	10.8
Services	..	34.3	42.5	46.5
Household final consumption expenditure	..	61.4	61.9	50.8
General gov't final consumption expenditure	..	25.4	18.7	15.3
Gross capital formation	..	32.2	16.3	22.3
Exports of goods and services	..	28.8	24.6	37.5
Imports of goods and services	..	47.8	21.5	25.9
Gross savings	..	3.2	17.9	41.2



1980–90 1990–2000 2000–06
(average annual growth %)

2.5	1.8	1.2
..	-0.2	5.7
..	0.5	6.9
..	-3.4	4.3
..	0.7	1.8
..	1.1	5.8
..
..
..	-2.5	5.2
..	-3.7	13.1
..	-7.4	7.6

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.
a. Aid data are for 2005.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade

	2000	2006
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	2,935	5,615
Total merchandise imports (cif)	2,696	3,994
Net trade in goods and services	422	1,986

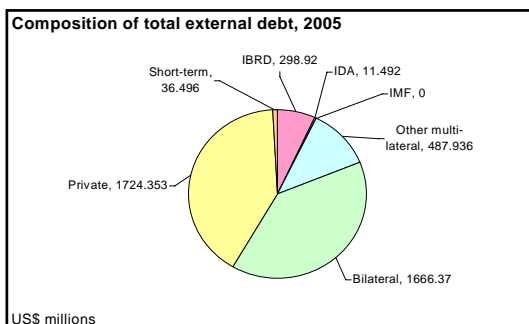
Workers' remittances and compensation of employees (receipts)	..	..
Current account balance as a % of GDP	216	3,221
	1.6	18.9
Reserves, including gold	1,273	4,459

Central Government Finance

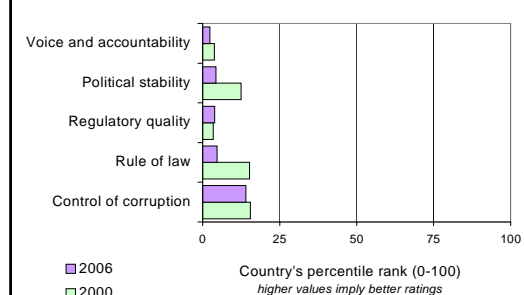
<i>(% of GDP)</i>		
Current revenue (including grants)	36.8	33.8
Tax revenue	34.8	29.5
Current expenditure	29.4	30.5
Overall surplus/deficit	-2.5	3.4
Highest marginal tax rate (%)		
Individual	36	29
Corporate	26	12

External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	4,634	4,226
Total debt service	883	788
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	33.7	29.5
Total debt service (% of exports)	26.1	14.2
Foreign direct investment (net inflows)	75	45
Portfolio equity (net inflows)	0	0

**Private Sector Development**

	2000	2006
Time required to start a business (days)	-	29
Cost to start a business (% of GNI per capita)	-	14.1
Time required to register property (days)	-	91
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Tax rates	..	18.1
Access to/cost of financing	..	16.0
Stock market capitalization (% of GDP)	0.2	0.3
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2006

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure

	2000	2005
Paved roads (% of total)	87.3	..
Fixed line and mobile phone subscribers (per 1,000 people)	69	80
High technology exports (% of manufactured exports)	..	..

Environment

Agricultural land (% of land area)	65	64
Forest area (% of land area)	7.6	7.7
Nationally protected areas (% of land area)	..	4.8
Freshwater resources per capita (cu. meters)	..	623
Freshwater withdrawal (% of internal resources)	357.9	..
CO2 emissions per capita (mt)	4.8	4.8
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	0.7	0.8
Energy use per capita (kg of oil equivalent)	2,035	2,088

World Bank Group portfolio

	2000	2006
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	217	316
Disbursements	31	32
Principal repayments	5	21
Interest payments	12	15
IDA		
Total debt outstanding and disbursed	0	26
Disbursements	0	13
Total debt service	0	0
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	8	15
Disbursements for IFC own account	2	4
Portfolio sales, prepayments and repayments for IFC own account	1	8
MIGA		
Gross exposure	10	0
New guarantees	0	0

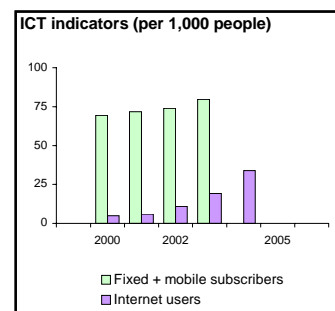
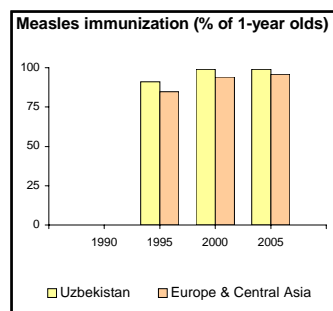
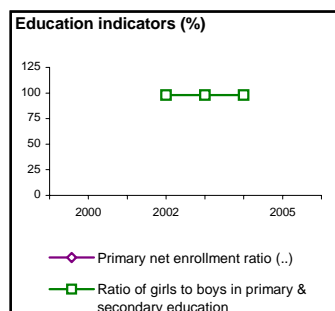
Note: Figures in italics are for years other than those specified. 2006 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

9/28/07

Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Uzbekistan			
	1990	1995	2000	2005
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	<2	3.3	19.2	<2
Poverty headcount ratio at national poverty line (% of population)	..	..	27.5	..
Share of income or consumption to the poorest quintile (%)	10.9	7.3	3.9	7.2
Prevalence of malnutrition (% of children under 5)	..	18.8	7.9	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	78	..	..	..
Primary completion rate (% of relevant age group)	..	..	99	97
Secondary school enrollment (gross, %)	99	..	95	95
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	94	..	98	98
Women employed in the nonagricultural sector (% of nonagricultural employment)	47	44	42	40
Proportion of seats held by women in national parliament (%)	..	6	7	18
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	79	75	71	68
Infant mortality rate (per 1,000 live births)	65	62	59	57
Measles immunization (proportion of one-year olds immunized, %)	84	91	99	99
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	24	..
Births attended by skilled health staff (% of total)	..	98	96	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.2
Contraceptive prevalence (% of women ages 15-49)	..	56	68	..
Incidence of tuberculosis (per 100,000 people)	68	76	93	113
Tuberculosis cases detected under DOTS (%)	..	..	4	39
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	94	93	87	82
Access to improved sanitation facilities (% of population)	51	52	61	67
Forest area (% of total land area)	7.2	..	7.6	7.7
Nationally protected areas (% of total land area)	..	..	..	4.8
CO2 emissions (metric tons per capita)	6.3	4.3	4.8	4.8
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	0.7	0.7	0.7	0.8
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	68	68	69	80
Internet users (per 1,000 people)	0	0	5	34
Personal computers (per 1,000 people)	..	..	..	..
Youth unemployment (% of total labor force ages 15-24)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

9/28/07

Development Economics, Development Data Group (DECDG).

**CAS Annex B2 -
Selected Indicators* of Bank Portfolio Performance and Management**

As Of Date
01/23/2008

Indicator	2005	2006	2007	2008
Portfolio Assessment				
Number of Projects Under Implementation ^a	7	5	6	6
Average Implementation Period (years) ^b	4.3	4.5	4.7	5.3
Percent of Problem Projects by Number ^{a, c}	0.0	40.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	33.7	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	42.9	60.0	0.0	16.7
Percent of Projects at Risk by Amount ^{a, d}	53.8	59.5	0.0	5.9
Disbursement Ratio (%) ^e	11.9	22.3	24.2	16.8
Portfolio Management				
CPPR during the year (yes/no)	yes	yes	yes	yes
Supervision Resources (total US\$)	1102.5	774.8	767.7	615.2
Average Supervision (US\$/project)	122.5	110.7	127.9	76.9

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	9	5
Proj Eval by OED by Amt (US\$ millions)	332.2	86.6
% of OED Projects Rated U or HU by Number	37.5	40.0
% of OED Projects Rated U or HU by Amt	55.4	27.9

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

CAS Annex - B3

Uzbekistan: IFC Investment Operations Program

	2005	2006	2007	2008*
<u>Commitments (US\$m)</u>				
Gross			3.00	0.00
Net			3.00	0.00
<u>Net Commitments by Sector (%)</u>				
Financial Sector			100	0
Total	0	0	100	0
<u>Net Commitments by Investment Instrument (%)</u>				
Loan			100	0
Total	0	0	100	0

* As of April 14, 2008

CAS Annex B3 - IBRD/IDA Program Summary

As of May 14, 2008

Proposed IBRD/IDA Base-Case Lending Program^a

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards^b (H/M/L)</i>	<i>Implementation^b Risks (H/M/L)</i>
2008 (IDA-14)	Rural Enterprise Support Project Phase II	68.0	H	M
	Result	68.0		
2009	Ferghana Valley	65.0	H	M
	Basic Education II	25.0	H	L
	Result	90.0		
2010	Small town / rural water supply in SyrDarya Oblast	65.0	H	L
	Bukhara & Samarkand Sewerage	40.0	H	M
	Results	105.0		
2011	Health III	70.0	H	M
	Sewerage in Ferghana and Republic of Karakalpakstan	40.0	H	L
	Results	110.0		
Overall Result		373.0		
Preparation for possible delivery under IDA-15, or early IDA-16				
	Irrigation and Drainage – Phase II	100.0		
	Rural Water Supply in Bukhara oblast	15.0		

Note: The program is indicative. The actual size of the projects in the pipeline will be determined in line with available resources determined using the IDA PBA system.

^a This table presents the proposed program for FY08-FY11.

^b For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).

CAS Annex B4 - Summary of IDA Advisory Services -

As of April 21,
2008

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
IDA				
Recent completions				
Cotton Taxation Study	FY06	Trust Fund	Gov/WB/Donor/Public	KG, PS
Nutrition review I	FY06	Trust Fund	Gov/WB/Donor/Public	KG, PS
PER 2	FY06	100.9	Gov/WB/Donor/Public	KG, PD
Municipal Sector Review	FY07	244	Gov/WB	KG, PS KG, PS,
UZ Poverty Assessment	FY07	156	Gov/WB/Donor/Public	PD
Underway				
Governance Assessment (Health Sector)	FY08	326	Gov/WB	PS KG, PS,
Health and Nutrition Review	FY08	85	Gov/WB/Donor/Public	PD KG, PS,
Water Sector Investment Planning Study	FY09	260	Gov/WB/Donor/Public	PD
Adv. On Dev. Of Treasury Syst TA	FY09	82	WB/Gov	KG, PS
Accounting & Auditing ROSC	FY09	100	Gov/WB	KG
PSD/FSD Dialogue	FY09	100	Gov/WB	KG,PS
Planned				
WIS TA	FY09	300	Gov/WB/Donor/Public	KG, PS, PD
Governance Assessment in Municipal Sector	FY09	120	Gov/WB	PS
Growth and Poverty Dialogue	FY09	200	Gov/WB	KG

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

CAS Annex B4 - Summary of IFC Advisory Services

As of May 06, 2008

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Underway				
CA Mortgage (Uzbekistan share of Regional project)	FY10	1,580	Gov/Market participants	KG/PS
Advisory services to Hamkorbank-III	FY10	290	Market participant	KG, PS
CA Leasing Facility (Regional project)	FY10	2,240	Gov/Market participants	KG/PS
SME Policy Development-IV	FY09	713	Gov/WBG/Donor/Public	KG, PS, PD
Planned				
SME Policy Development-V	FY11	930	Gov/WB/Donor/Public	KG, PS, PD
CA FM Infrastructure (Uzbekistan share of Regional project)	FY11	500	Market participants/ Gov/WB	KG, PS
CA Infrastructure Scoping (regional Scoping project)	FY10	1,000	Gov/WB/Public/Market participants	KG, PS, PD

a. Government, market participants, donor, public dissemination.

b. Knowledge generation, public debate, problem-solving.

CAS Annex B6 - Uzbekistan - Key Economic Indicators

Indicator	Actual			2007	Estimate		Projected	
	2004	2005	2006		2008	2009	2010	2011
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	31	28	26	24	24	23	23	22
Industry	26	23	27	30	31	32	33	33
Services	43	49	46	46	45	45	44	45
Total Consumption	68	64	66	70	71	74	75	76
Gross domestic fixed investment	24	22	21	19	21	20	19	20
Government investment	5	4	4	3	3	3	3	3
Private investment	19	18	18	16	18	17	16	17
Exports (GNFS) ^b	40	38	38	40	41	41	41	41
Imports (GNFS)	33	29	26	30	33	34	35	37
Gross domestic savings	32	36	34	30	29	26	25	24
Gross national savings ^c	34	40	41	34	36	33	31	29
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	12030	14308	17031	22308	27195	29884	32654	35479
GNI per capita (US\$, Atlas method)	460	530	610	730	880	1040	1160	1240
Real annual growth rates (% , calculated from 97 prices)								
Gross domestic product at market prices								
Gross Domestic Income	7.7	7.0	7.3	9.5	8.0	7.0	6.5	6.0
Gross Domestic Income	7.7	7.0	7.3	9.5	9.4	5.1	5.9	5.4
Real annual per capita growth rates (% , calculated from 97 prices)								
GDP at market prices	6.5	5.8	6.0	8.1	6.7	5.8	5.3	4.8
Total consumption	6.2	3.2	0.9	0.5	7.5	6.5	6.2	5.6
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	4837	5416	6390	8991	11186	12192	13369	14630
Merchandise FOB	4263	4757	5615	8026	10103	11024	12123	13302
Imports (GNFS) ^b	3928	4101	4404	6736	8948	10295	11501	13290
Merchandise FOB	3061	3310	3614	5730	7720	8822	9740	11199
Resource balance	909	1315	1986	2255	2238	1897	1868	1340
Net current transfers	356	658	1222	1990	1975	2039	2131	2225
Current account balance	1216	1949	3248	4307	4153	3820	3840	3378
Net private FDI	187	88	194	734	311	368	433	510
Long-term loans (net)	-89	-212	-152	-303	95	131	135	150
Official	78	28	29	156	38	47	31	23
Private	-168	-240	-182	-460	57	83	104	127
Other capital (incl. errors & omissions)	-802	-1076	-1726	-2583	-3300	-3072	-3184	-2866
Change in reserves ^d	-512	-748	-1564	-2155	-1259	-1247	-1224	-1173
<i>Memorandum items</i>								
Current account balance (% of GDP)	10.1	13.6	19.1	19.3	15.3	12.8	11.8	9.5
Resource balance (% of GDP)	7.6	9.2	11.7	10.1	8.2	6.3	5.7	3.8
Real annual growth rates (YR97 prices)								
Merchandise exports (FOB)	25.8	6.3	13.7	37.7	15.2	13.8	10.8	10.3
Merchandise imports (CIF)	19.1	8.1	5.6	38.2	27.8	13.3	9.6	14.2

(continued)

CAS Annex B6 - Uzbekistan - Key Economic Indicators

	Actual			Estimate	Projected			
	2004	2005	2006	2007	2008	2009	2010	2011
Public finance (as % of GDP at market prices)^e								
Current revenues	32.2	30.8	34.4	35.2	34.9	34.6	34.5	34.5
Current expenditures	31.6	30.5	30.7	28.7	30.0	29.8	29.4	28.9
Current account surplus (+) or deficit (-)	0.6	0.2	3.7	6.4	4.9	4.8	5.1	5.6
Foreign financing	0.7	0.7	0.4	0.6	0.2	0.1	0.1	0.1
Monetary indicators								
M2/GDP	12.2	14.4	15.2	16.3	16.7	16.8	16.9	16.9
Growth of M2 (%)	47.8	54.2	36.8	46.2	29.1	24.1	20.3	16.6
Price indices(YR97 =100)								
Merchandise export price index	118.0	123.8	128.5	133.4	145.8	139.7	138.7	138.0
Merchandise import price index	103.3	103.3	106.6	110.6	116.6	117.6	118.5	119.3
Merchandise terms of trade index	114.2	119.9	120.6	120.6	125.0	118.8	117.0	115.7
Real interest rates								
GDP deflator (% change)	15.7	21.4	21.5	24.0	17.0	15.0	12.0	10.0

- a. GDP at factor cost
- b. "GNFS" denotes "goods and nonfactor services."
- c. Includes net unrequited transfers excluding official capital grants.
- d. Includes use of IMF resources.
- e. Consolidated central government.

CAS Annex B7 - Uzbekistan - Key Exposure Indicators

Indicator	Actual				Estimated		Projected	
	2004	2005	2006	2007	2008	2009	2010	2011
Total debt outstanding and disbursed (TDO) (US\$m) ^a	4833	4226	4106	3505	3259	3179	3077	3093
Net disbursements (US\$m) ^a	-157	-372	-152	-253	-224	-69	-103	84
Total debt service (TDS) (US\$m) ^a	871	787	920	842	666	599	611	448
Debt and debt service indicators (%)								
TDO/XGS ^b	97.9	76.3	62.3	38.0	24.6	22.2	19.8	18.4
TDO/GDP	40.2	29.5	24.1	15.7	12.0	10.6	9.4	8.7
TDS/XGS	17.7	14.2	14.0	9.1	5.0	4.2	3.9	2.7
Concessional/TDO	36.0	37.6	38.5	45.7	43.5	42.7	42.0	40.8
IBRD exposure indicators (%)								
IBRD DS/public DS	4.2	4.9	5.8	8.2	8.9	9.8	9.3	12.0
Preferred creditor DS/public DS (%) ^c	16.2	18.3	21.2	17.7	26.3	29.8	29.9	39.2
IBRD DS/XGS	0.6	0.6	0.7	0.5	0.4	0.4	0.3	0.3
IBRD TDO (US\$m) ^d	312	299	291	278	273	249	221	191
Share of IBRD portfolio (%)								
IDA TDO (US\$m) ^d	5	11	23	41	52	70	91	116
IFC (US\$m)								
Loans	31.4	26.7	19.2	10.2	8.0			
Equity	2.4	1.8	1.8	1.5	1.5			
MIGA								
MIGA guarantees (US\$m)	0.0	0.0	0.0	0.0	0.0			

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

CAS Annex - B8 (IFC) for Uzbekistan

Uzbekistan
Committed and Disbursed Outstanding Investment Portfolio
As of March 2008
(In USD Millions)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/R M</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/R M</u>	<u>Partici pant</u>
1997	ABN AMRO Uzbek	-	1.0	-	-	-	-	1.0	-	-	-
2000/ 2003	Asaka Bank	2.7	-	-	-	-	2.7	-	-	-	-
2000	SEF Elma Cheese	0.0	-	-	-	-	0.0	-	-	-	-
1998/ 1999	SEF Fayz	0.0	-	-	-	-	0.0	-	-	-	-
2001/ 2007	SEF Hamkorbank	3.2	-	-	-	-	2.2	-	-	-	-
2001	SEF Parvina	-	-	0.6	-	-	-	-	0.1	-	-
1996/ 2001/ 2003	UZBEK LEASING	1.5	0.5	-	-	-	-	0.5	-	-	-
Total Portfolio:		7.4	1.5	0.6	-	-	4.9	1.5	0.1	-	-

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

**CAS Annex B8 -
Operations Portfolio (IBRD/IDA and Grants)**

As Of Date 04/21/2008

Closed Projects 9

IBRD/IDA *

Total Disbursed (Active)	157.95
of which has been repaid	20.33
Total Disbursed (Closed)	332.23
of which has been repaid	110.43
Total Disbursed (Active + Closed)	490.18
of which has been repaid	130.76
Total Undisbursed (Active)	105.75
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	105.75

Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements^{a/}</u>		
		<u>Supervision Rating</u>			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P094042	BASIC EDUC	MS	MS	2007		15			15.82	12.29	
P049621	BUKHARA/SAMARKAND WS	MS	MS	2002	20	20	0.17		16.93	12.56	0.85
P009127	DRAINAGE, IRRIG & WETLANI	S	S	2003	35	25			34.54	2.41	
P051370	HEALTH 2	MS	MS	2005		40			29.93	17.74	
P046043	RUR ENT SUPPORT	S	S	2002	36.14				1.70	1.70	1.70
P009121	RURAL WS & SAN	S	S	1998	75		13.67		6.84	20.51	6.84
Overall Result					166.14	100	13.85		105.75	67.22	9.39