



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Uzbekistan	EUROPE AND CENTRAL ASIA	P173619	
Project Name	Uzbekistan Financial Sector Reform Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	4/16/2021	4/30/2021
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	Ministry of Finance		

Proposed Development Objective

The project development objective is to support the authorities in successfully restructuring and/or privatizing state-owned banks and developing alternative financing for micro, small and medium enterprises.

Financing (in USD Million)	Amount
Total Project Cost	15.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The proposed project has four components:

- Component 1. Bank modernization, commercialization, privatization
- Component 2. Institutional capacity building for government agencies
- Component 3: Digital factoring platform and alternative financing instruments
- Component 4: Project implementation and Management

D. Environmental and Social Overview



D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Uzbekistan is transforming the foundations of its economy and social contract through three major shifts: from central planning to a market economy; from state to private ownership; and from isolation to economic integration. Government of Uzbekistan (GoU) has adopted a five-year Development Strategy emphasizing five governance related principles for accelerating sustainable development: i) improving state and public administration, ii) further strengthening the role of the Oliy Majlis (parliament), iii) economic development and liberalization, iv) development of the social sphere, and v) ensuring security, inter-ethnic harmony and religious tolerance via the implementation of a balanced, mutually beneficial, constructive foreign policy. While several areas have made progress, further reforms are needed particularly in the financial sector which is bank-dominated, primarily state-owned, and highly concentrated. Thirteen state-owned banks (SOBs) -out of 32 commercial banks- hold around 85 percent of total sector assets and 89 percent of total credit. The government is the sole or vast majority (over 90 percent) shareholder of these SOBs.

Until recently, the SOBs had been lending primarily to priority sectors and SOEs at a below-market rate. Meanwhile, micro-, small, medium enterprises' (MSMEs)' access to finance remain a significant challenge in Uzbekistan compared with peer countries, which prevent boosting dynamics in the economy, innovation and job creation. Restructuring SOBs and changing their business models is critical for the financial sector in Uzbekistan and developing alternative financing for MSME is much needed. The project aims to tackle these issues while supporting the implementation of the recently adopted banking sector reform strategy. The proposed project is expected to be implemented at the national level with the Ministry of Finance, SOBs, and other relevant/ministries/institution through several technical assistances and modernizing ICT/digital infrastructure. Specific locations of physical interventions are expected to be mostly within the footprint of the existing facilities.

D. 2. Borrower's Institutional Capacity

Uzbekistan's Ministry of Finance (MOF) is well versed with the World Bank as it is currently managing two World Bank financed projects – Covid 19 (P173827) and IBL (P168180). While, the project's overall implementation responsibility will rest with the Ministry of Finance (MOF), they will draw upon the expertise of other agencies as required. Components 1, 2 and 4 are expected to be led by the Ministry of Finance. Component 3 will be led by the agency responsible for creating the digital factoring platform that has yet to be determined (e.g., State Fund for Support of Entrepreneurship Development). Already a PIU has been established within the ministry for this purpose. As the Covid 19 is premised on the Bank's new ESF, PIU is aware of the environmental and social requirements.

In terms of decision-making and accountability for the project, the project implementation arrangements will have four key elements: (i) the Minister of Finance will be the main decision-maker for the overall project; (ii) the MoF SOB unit will oversee day-to-day project implementation; (iii) supporting the MoF SOB unit, the MoF's PIU—responsible for fiduciary, facilitation, coordination and M&E—will be utilized; (iv) CBU support will be sought when implementing all of the components. While some institutional capacity does exist, a decision needs to be taken during preparation whether to use the existing PIU with some supplementary staff or establishing a PIU anew.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS



A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Moderate

The proposed Project’s Environmental Risk Rating is moderate. The proposed project activities are not expected to have any large, significant or irreversible environmental impacts, as it will mostly finance consulting and advisory services such as capacity building, and training to enhance the authorities’ capacity in the financial sector. The activity will also finance investments in modernizing the core infrastructure of the State-owned-banks to support the commercialization of SOBs, in particular ICT systems and infrastructure (sub-component 1.2), and infrastructure for digital factoring platform (sub-component 3.1). Overall, no major construction works or physical works impacting on the environment is expected. While the detailed scope of modernizing ICT infrastructures is unknown at this moment, it will be likely upgrading IT equipment and relevant software installation related to the banking systems. This might create issue such as small rehabilitation and disposal/recycling of electronic waste when equipment is replaced. These issues could be easily mitigated through a waste management plan and an environmental and social management plan. The scope of upgrading necessary ICT infrastructure should be further defined as the project proceeds and the client will prepare and review with the Bank prior to appraisal.

Social Risk Rating

Moderate

The Social Risk is moderate. The proposed project is expected to result in significant positive impacts as it would lead to : (i) enhanced corporate governance and risk management of banks; (ii) transformation of SOB business models and operations from the previous “state-agent” role to a new competitive banking role; and (iii) refocusing the SOBs towards well-defined market “gap-filling” and ensuring financial inclusion and access so as to better serve the needs of

the hitherto deprived segments such as low-income household, rural populations, micro and small firms. These measures thereby would improve access to finance and financial inclusion. The interventions are exclusively ‘software’ oriented encompassing policy changes, capacity building and capacity support including digitalization. No new civil / construction works are envisaged. Given this, two issues assume significance—one, the pace of reforms and outreach. The former would depend upon the overall country’s political economy and governance as well as the institutional capacity. The latter falls under the purview of the ‘project’ and planned efforts are essential to ensure that it reaches out and engages systematically with the stakeholders, both at the project and national level. This will not only help in keeping the country informed but also avoid any misunderstandings and mis-information campaigns.

The outreach related risk is expected to be low to moderate as the project will support the implementation of the Banking Sector Reform Strategy 2020-25, prepared by the WB and approved by GOU in May 2020. Already the adoption of the strategy was followed by massive communication campaign with TV interviews and briefings as well as articles on web. These initiatives will be expanded and taken forward through a Stakeholder Engagement Plan (SEP).

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

Public Disclosure



The project will have mostly positive benefits as the interventions aims at enhancing financial sectors and support the government’s adopted banking sector reform strategy for 2020-2025. The project finance mostly consulting and advisory services to support capacity building, training, and feasibility assessment types of activities. The project does not support any civil works and environmental risks are confined to small rehabilitation issues for the installation of new equipment, and disposal/recycling of electronic waste when equipment is replaced in upgrading ICT infrastructure of the bank systems. These could be easily mitigatable with a waste management plan and an ESMP checklist, respectively. On the social front, the key risks relate to reaching out to the stakeholders engagement – which will be addressed in detail in the SEP.

The risks are covered by ESS 1, ESS 2, ESS 3, ESS 4, and ESS 10.

Extending the tentacles, as a part of the reform agenda, the financial sector will greatly benefit from including E&S risk management functions as part of the enhancement proposed to risk management activities and included in the consultancy contracts. To this effect, Environmental and Social Management Systems (ESMS) akin to one ingrained in ESS 9 could serve as a reference point.

Areas where “Use of Borrower Framework” is being considered:

The Borrower's framework will not be used for this project.

ESS10 Stakeholder Engagement and Information Disclosure

The project recognizes the need for an effective and inclusive engagement with all of the relevant stakeholders and the population at large. Key stakeholders will include the financial institutions and their prospective customers such as individuals, MSMEs, private entrepreneurs, exporters and other industries, Meaningful consultations and disclosure of appropriate information assume huge significance not only in reaching out to project-affected people and other stakeholders, but also avoid any misunderstandings and misinformation campaigns. In this backdrop, the project will prepare a detailed SEP which serves the following purposes: (i) stakeholder identification and analysis; (ii) planning engagement modalities, namely effective communication tools for consultations and disclosure; and (iii) enabling platforms for influencing decisions; (iv) defining roles and responsibilities of different actors in implementing the Plan; and (iv) a grievance mechanism (GM) for project activities, as well as outlining the broader communications the project will support as part of project design.

The GM will accept, review, and seek to resolve any project related concerns or feedback, and be easily accessible to all the stakeholders. The GM will also have a special window to address SEA/SH complaints such as to ensure privacy and dignity of the affected persons

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

The project will have the following categories of the workers: direct and contract. The project will include; adequate occupational health and safety measures (including emergency preparedness and response measures); grievance



arrangements for project workers; measure to incorporate labor requirements into the ESHS specifications. These and other measures related to working conditions, equality of opportunity and workers' associations will be documented in labor management procedures (LMP) that will be included in the POM. The direct workers will be essentially technical consultants deployed at PIU who will be governed by an explicit mutually agreed contract, reviewed and cleared by the World Bank. Contract workers will be those employed by the contractors supplying equipments and/ or other machineries. These apart, there will be a host of government civil servants who will be governed by their contracts and service codes.

No significant civil works or construction are envisaged as the project will mostly finance technical assistance types of work and the installation of and upgrading IT equipment and systems and works necessary for that installation. Any labor for minor equipment installation and related minor rehabilitation will be included in the installation contracts or as direct work hired by the project for that purpose. Given the COVID situation, a checklist and guidance note will be prepared (as a part of the LMP/POM) for governing the conduct of all workers to ensure health and safety. These instruments include: EHS checklists, codes of conduct that include measures to prevent Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH); safety training etc. All workers will have access to the project specific GM.

ESS3 Resource Efficiency and Pollution Prevention and Management

Relevant aspects of ESS3 shall be considered as needed. Upgrading the ICT infrastructure could potentially involve replacing and disposing old electronic equipment, which might also include hazardous substance. The waste management plan and ESMP should prepare to mitigate these issues.

ESS4 Community Health and Safety

The improper disposal of electronic waste could pose health and safety risks to communities. Thus, the client will prepare a waste management plan prior to the project appraisal. The project will also include measures to address any SEA/SH risks.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Project is not financing does not finance new civil construction works. Hence, no lands need to be acquired, are to be acquired involuntarily. Nor nor will there be any restrictions on the accesses.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The most of works are expected to be conducted within the existing footprint of facilities. Therefore, ESS 6 is not relevant to the proposed project interventions.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

There are no indigenous people in Uzbekistan.



ESS8 Cultural Heritage

The most of works are expected to be conducted within the existing footprint of facilities. Therefore, ESS 8 is ot relevant to the proposed project interventions.

ESS9 Financial Intermediaries

Project does not plan interventions through financial intermediaries. As part of the modernization and risk management upgrades and development of internal control and risk management systems under component 1.2, the SOBs will need to ensure that the consulting activities involve the development of E&S risk management systems (ESMS) similar to one ingrained in ESS 9.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

There are no other financiers.

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

1. Develop a Stakeholder Engagement Plan (SEP) and implement as early as possible.
2. Prepare a waste management plan specifically for dealing with electronic waste resulting from the replacement of existing equipment.
3. Develop an ESMP checklist for minor rehabilitation that may be required for the installation of new equipment in existing facilities.
4. Prepare an Environmental and Social Commitment Plan (ESCP) acceptable to the Bank.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

1. Establish PIU and equip with appropriate environment and social specialists.



2. Maintaining, throughout project implementation, adequate environment and social staffing at the PIU to ensure proper implementation, monitoring, and reporting of ESF related issues including the use of ESMP checklists where required.
3. Compliance with the waste management plan throughout project implementation.
4. Continued stakeholder engagement throughout project implementation and beyond project closure.
5. Establish and ensure the functionality of the GM throughout the implementation period.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

26-Mar-2021

IV. CONTACT POINTS

World Bank

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Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: Ministry of Finance

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s):	Martin Melecky
Safeguards Advisor ESSA	Agnes I. Kiss (SAESSA) Cleared on 22-Dec-2020 at 21:03:11 GMT-05:00

Public Disclosure