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MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

UZBEKISTAN

FOR THE PERIOD FY16-FY20

19 May 2016

**Central Asia Country Management Unit (ECCU8)
Europe and Central Asia**

International Finance Corporation

Multilateral Investment Guarantee Agency

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The last Country Partnership Strategy was discussed by the Board on December 6, 2011

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	ILO	International Labor Organization
ASA	Advisory Services and Analytics	IFAS	International Fund for Saving Aral Sea
BCI	Better Cotton Initiatives	IFC	International Finance Corporation
CAHMP	Central Asia Hydrometeorology Modernization Project	IFIs	International Financial Institutions
CAREC	Central Asia Regional Economic Cooperation	IFS	International Finance Statistics
CAMP4ASB	Climate Adaptation and Mitigation Program for the Aral Sea Basin	IMF	International Monetary Fund
CAEWDP	Central Asia Energy and Water Development Program	IsDB	Islamic Development Bank
CALISS	Central Asia Labor and Skills Survey	JICA	Japanese International Cooperation Agency
CAWaRM	Central Asia Water Resources Management	NGOs	Non-Governmental Organizations
CBU	Central Bank of Uzbekistan	MDGs	Millennium Development Goals
CIS	Commonwealth of Independent States	MFERIT	Ministry of Foreign Economic Relations, Investment and Trade
COM	Cabinet of Ministers	MIGA	Multilateral Investment Guarantee Agency
COP21	Conference of Parties 21	MOE	Ministry of Economy
CPF	Country Partnership Framework	MSME	Micro, Small and Medium Enterprises
CPIA	Country Policy Institutional Assessment	OCCR	Operating Cost Recovery Ratio
CPI	Consumer Price Index	PEFA	Public Expenditure & Financial Accountability
CPS	Country Partnership Strategy	PFI	Participating Financial Institutions
CSO	Civil Society Organizations	PFM	Public Finance Management
ECA	Europe and Central Asia	PIU	Project Implementation Unit
FBM	Feedback Mechanism	PPP	Public-Private Partnerships
FDI	Foreign Direct Investment	RESP II	Rural Enterprise Support Project
FRD	Fund for Reconstruction and Development	SCD	Systematic Country Diagnostics
GDP	Gross Domestic Product	SDC	Swiss Agency for Development & Cooperation
GFS	Government Finance Statistics	SDG	Sustainable Development Goals
GNI	Gross National Income	SDR	Special Drawing Right
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Technical Cooperation)	SME	Small and Medium Enterprise
HDI	Human Development Index	SOEs	State-owned Enterprises
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
ICT	Information & Communication Technology	TPM	Third Party Monitoring
IDA	International Development Association	UN	United Nations
		UNDP	United Nations Development Program
		USAID	United States Agency for International Development
		WBG	World Bank Group
		WCA	Water Consumer Association
		WDR	World Development Report
		WIS	Welfare Improvement Strategy
		WUA	Water Users' Association

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FY16-20 COUNTRY PARTNERSHIP FRAMEWORK FOR UZBEKISTAN

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EXECUTIVE SUMMARY

Country Context

i. Uzbekistan's economy grew rapidly over the last decade and lifted significant parts of the population out of poverty. Today the challenging external environment suggests that Uzbekistan will need to find new drivers for economic growth in the future. Increased exports of gas, gold, and other minerals combined with high commodity prices generated revenues that financed large increases in investment and salary increases to bolster consumption. However, gas and mineral export volumes will likely plateau and commodity prices are not expected to return to the levels of the past decade soon. Uzbekistan's reform agenda need to offset the downside risks and put the economy on a more sustainable path of income growth and job creation.

Development Agenda

ii. A primary development challenge, given the rapidly increasing labor force, is the creation of new productive and sustainable jobs, requiring accelerated transition toward a private sector-driven, market-based economy. Uzbekistan's public sector will not be able to create the large number of jobs required to meet the needs of a labor force that is expected to continue growing until 2040. Private sector development and investment are thus essential, as are measures to address four other challenges: improving market incentives; using natural resources, especially energy and water, more efficiently and sustainably; investing further in the human and physical assets required to sustain robust income growth in the future; and improve data availability and quality.

iii. The Uzbekistan Systemic Country Diagnostic (SCD) identified ten priority areas that would need to be addressed to eliminate poverty, boost shared prosperity, and enable Uzbekistan to reach upper middle-income status: (a) strengthening allocative efficiency and competition by removing market distortions; (b) establishing a high-quality regulatory environment; (c) promoting reallocation of land towards more productive uses; (d) modernizing public infrastructure; (e) addressing labor market weaknesses; (f) mitigating spatial inequities in access to social services; (g) promoting efficient and sustainable use and management of energy and natural resources; (h) widening access to pre-primary and tertiary education and ensuring access to quality health care, (i) addressing remaining inefficiencies in social protection, and (j) making public administration more transparent and accountable.

iv. The government's strategic objectives are for Uzbekistan to achieve upper middle-income status by 2030, implying income growth averaging 6 percent annually, and in particular to create 500,000 jobs annually. A Cabinet of Ministers Program of Action established seven objectives for 2015 and subsequent years, as follows: to increase the economy's competitiveness; to provide complete freedom for private sector development; to reduce government involvement in the economy; to strengthen corporate governance; to deepen domestic industrial production; to strengthen infrastructure; and to create conditions for rapid job creation.

World Bank Group (WBG) Strategy

v. **The Country Partnership Framework's (CPF) principal objective is to support the government's goal of creating up to 500,000 new, productive, and sustainable jobs annually.** Against this background, the ten priorities identified in the SCD are grouped into three Focus Areas: (a) private sector growth, (b) agricultural competitiveness and cotton sector modernization, and (c) public service delivery.

- ***Private sector growth*** includes five objectives: (a) reducing the regulatory burden; (b) strengthening private sector access to finance and financial services; (c) increasing private investment and job creation in agribusiness; (d) expanding private sector participation in the economy through corporate governance, privatization, and public-private partnership activities; and (e) enhancing economic governance.
- ***Agricultural competitiveness and cotton sector modernization*** includes two objectives: (a) facilitating a market-led modernization of the cotton sub-sector to increase productivity including measures to prevent forced labor; and (b) diversifying agriculture toward higher-value, more job- and less water-intensive crops.
- ***Public service delivery*** includes five objectives: (a) improving the quality of education and health services; (b) extending coverage and targeting of social protection services; (c) increasing access and improving the quality of water supply and sanitation services; (d) promoting energy security and efficiency and reducing the economy's energy intensity; (e) enhancing the reliability and reducing the cost of transport services and strengthening the efficiency of local infrastructure service delivery.

vi. **The proposed IDA/IBRD financial envelope reflects WBG's growing partnership with Uzbekistan.** It would total up to \$3 billion over the five-year CPF period, of which about one-third would be on IDA and two-thirds on IBRD terms. IFC investments are expected to increase with amounts depending on the government's progress in moving towards a private sector-driven, market-based economy, reforms to further improve the investment climate and business environment, and the growth outlook in Uzbekistan's main commercial partners.

vii. **CPF implementation will involve several risks that will need to be managed and/or mitigated.** The most important relate to political will and governance, macroeconomic stability, institutional capacity for implementation and sustainability, fiduciary requirements, and environmental and social safeguards, and overall program performance risks stemming from absence of data.

I. INTRODUCTION

1. This Country Partnership Framework (CPF) covers the five-year period FY16-20. Anchored in the government's medium-term development plan as outlined in a January 2015 Cabinet of Ministers Program of Action, it also reflects the analysis and recommendations of the World Bank Group's (WBG) 2015 Systematic Country Diagnostic (SCD) for Uzbekistan and the lessons learned from the Completion Report of the previous CPS. The CPF's objectives and program, which focus on developing the conditions for faster job creation, are consistent with the WBG's twin goals of eliminating extreme poverty and boosting shared prosperity. The last Country Partnership Strategy (CPS), FY12-15, was discussed by the Board on December 6, 2011 (Report No. 65028-UZ) and a progress report was distributed in June 2014 (Report No. 84954-UZ).

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Political and Social Context

2. Uzbekistan is Central Asia's most populous country and its 31 million people, over one-third of whom are under the age of 14, comprise nearly half the region's total. With a land area of 447,000 km², about the size of California or Spain, Uzbekistan is the only Central Asian country to border the other four Central Asian States and is one of only two double landlocked countries in the world. It also shares a short border with Afghanistan to the south.

3. Uzbekistan's government and public administration are highly centralized, with public accountability and transparency remaining major challenges, though gradual adjustments are being made. The powers of the Presidency and Cabinet of Ministers are far-reaching and delegation of authority to national ministries and local governments is limited. During the last CPS, the government took steps to increase transparency, including publication of the approved budget and the use of any extra-budgetary funds on the Ministry of Finance's website, including updates on budget execution. This information would also be reflected in Government Finance Statistics (GFS) and Financial Soundness Indicators on the IMF's website. In addition, the 2014 Law on Transparency of State Bodies and Public Entities is intended to ensure regular publication of, and public access to information on government decision making. Despite this progress, the limited availability of key economic, financial, and social data continues to hamper detailed economic analysis and the ability of the Bank to provide targeted policy advice.

4. Parliamentary and presidential elections were held in late 2014 and early 2015 respectively. In parliamentary elections held in December 2014 and January 2015, the Liberal Democratic Party headed by the President won 52 of 135 elected seats, 83 remaining seats were shared by four major political parties that participated in the elections. In March 2015, President Karimov was re-elected to a fourth term with 90 percent of the vote.

5. Uzbekistan is addressing a legacy issue of the Soviet era, namely the practice of mobilizing students and staff from schools, universities and other public bodies to help gather the annual cotton harvest. The practice has raised concerns about the risk of forced labor. Moreover, the labor involved is predominantly female, perhaps as high as 80 percent according to some reports. The international community and several international civil society organizations (CSOs) have repeatedly raised concerns about this practice, including in a 2013 request to the Inspection Panel regarding the Bank-financed 2nd Rural Enterprise Support Project (RESP-II) and concerns on the recent IFC-financed Indorama Kokand project. Partly in response to these concerns, the government has taken additional steps to eliminate child labor and prevent of forced labor in cotton harvesting.

6. Against this background, the WBG has adopted a comprehensive approach to the child and forced labor issue with respect to Bank financed projects. Specific steps include: (a) introduction of a Third Party Monitoring and Feedback Mechanism in project areas in partnership with the International Labor Organization (ILO); (b) analytical work, policy dialogue, and investments to support the comprehensive modernization of agriculture, including sustainable cotton growing and harvesting practices (in line with the principles of the Better Cotton Initiative), reform of the state order system, and crop diversification; and (c) collaboration with other international organizations, CSOs, and development partners. Following the 2015 cotton harvest, the ILO concluded that there is no longer systematic use of child labor, that concerns remain about forced adult labor, however, and that further action is needed to reduce and eliminate it. In January 2016, the government announced measures to mitigate the risk of forced labor in the upcoming cotton season, and committed to eliminating the practice.

Recent Economic Developments

7. Over the last decade, Uzbekistan's economy grew rapidly, was resilient to shocks, and lifted significant parts of the population out of poverty. According to official statistics, Uzbekistan's 8.2 percent GDP growth rate over the last decade was the highest in the Europe and Central Asia Region (ECA) and one of the eight highest in the world.¹ Per capita GNI rose from US\$2,020 in 2001 to US\$5,840 in 2014.² According to official statistics, poverty declined from 27 percent to 15 percent between 2003 and 2012, although the methodology for measuring poverty needs to be brought up to international standards. Analysis of national household surveys suggests that recent growth has been relatively equitably distributed.

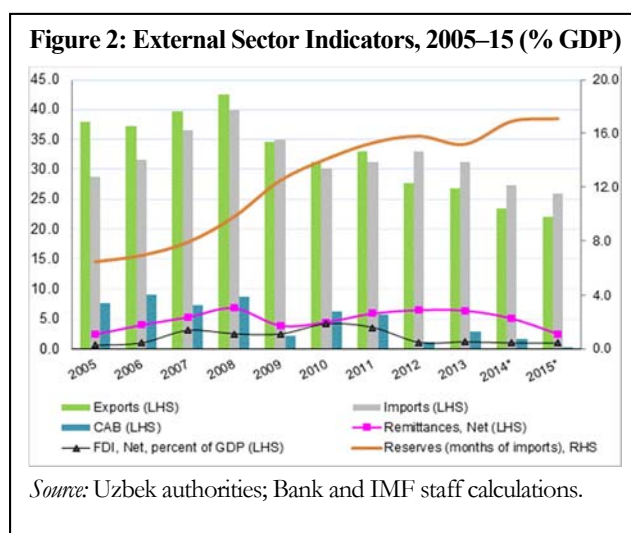
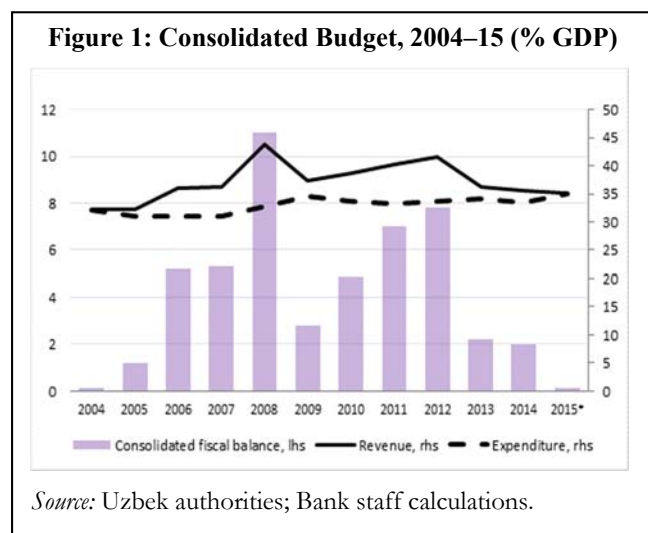
8. However, the weaker external environment of 2011-13 posed risks to economic growth which the government successfully countered with counter-cyclical policies. While world economic growth was recovering from the global financial crisis, commodity prices declined, China's economic growth slowed and remittances weakened, all affecting Uzbekistan's exports. The economy nonetheless managed to grow at an average annual rate of 8.2 percent in 2011-13 as a result of expansionary fiscal policies and measures to boost credit to the private sector to counter the impact of a gradually worsening external environment. During this period, while the government ran a fiscal surplus, monetary policy was accommodative. Official consumer price inflation was 6.8 percent at end-2013. The main sources of consumer inflation in 2011-13 were administered price increases of gasoline, utilities, and transport services and higher import tariffs and excise taxes on some food.

¹ Over the last decade, only Angola, Azerbaijan, China, Ethiopia, Mongolia, Qatar, and Turkmenistan grew faster.

² These figures are presented in purchasing-power parity terms. In current US\$ (Atlas method), GNI per capita rose from US\$560 in 2001 to US\$2,090 in 2014.

9. Uzbekistan experienced a much larger external shock during 2014-15. While the 2011-13 external shock resulted in reduced exports due to lower external demand, 2014-15 saw a larger downturn, accompanied by a much sharper decline in remittances compared to 2011-13.³ For example, during 2015, remittances fell by 40 percent yoy in US dollar terms. According to the official CPI, inflation declined from 6.1 percent (yoy) in December 2014 to 5.6 percent in December 2015, while according to the IMF-estimated CPI, inflation fell from 9.8 percent in December 2014 to 9.3 percent by the end of 2015. From December 2014 to December 2015, the official nominal Som/US\$ exchange rate has gradually depreciated by 16 percent, while the Russian ruble depreciated by 30 percent and the Kazakh *tenge* by 86 percent over the same period.

10. In response to the worsening external environment, the government used its fiscal buffers to mount a significant counter-cyclical response which succeeded in maintaining a high rate of economic growth. In 2014-15, the government increased public investment, cut business and personal income taxes, and increased public sector wages, the minimum wage, and pensions. According to official data, the significant fiscal efforts have maintained GDP growth at 8.1 percent in 2014 and 8 percent in 2015. They are also estimated to have maintained poverty at about 13.7 percent in 2015. The cost of the successful counter cyclical policies has been to erode Uzbekistan’s fiscal and external buffers while edging up the countries’ external debt, which still remains low. The consolidated fiscal balance dropped from a surplus of 2 percent of GDP in 2014 to an estimated 0.4 percent of GDP in 2015 while the current account surplus declined from 1.7 percent of GDP in 2014 to about one percent of GDP in 2015. As a consequence, total external debt increased from 13 percent of GDP in 2014 to 15.8 percent of GDP in 2015.



11. The outlook for Uzbekistan remains positive, despite the external environment, based on the continuation of counter cyclical policies, a bottoming out of commodity prices and a gradual deepening of the reform agenda. Uzbekistan’s external environment is expected to stabilize or recover moderately as commodity prices pick up and the Russian economy

³ The 2014-15 shock was due to sharper declines in commodity prices, especially of natural gas, and to slower growth in China in addition to the deeper recession in Russia compared to 2011-13.

gradually recovers; yet, the external environment is not expected to be as advantageous as during the boom commodity years. The Russian economy’s recovery is expected to take several years, commodity prices are expected to edge up only slowly, and China’s economy is expected to remain strong but at growth rates which are expected to be somewhat lower than in previous years. Nevertheless, gas exports are expected to increase in 2017-18 with the completion of the additional pipeline to China. Mineral export volumes will likely plateau given a softening of demand from trading partners. Finally, climate change is likely to aggravate water, energy, and environmental constraints. In light of these factors, economic growth and job creation in the medium term may have to rely less on the extractive and other heavy industries than in the past. To overcome these challenges, Uzbekistan may have to maintain the counter cyclical policies of the past few years, but also initiate an adjustment to the existing approach to development. All this means that while Uzbekistan’s natural course of development would be a gradual transition from a factor driven to an efficiency driven economy, the external environment is requiring that this transition happen at a greater speed.

Table 1: Selected Economic Indicators and Baseline Projections for 2016-18

<i>In percent change, unless otherwise indicated</i>	2013	2014	2015p	2016*	2017*	2018*
GDP, at constant market prices	8.0	8.1	8.0	7.3	7.2	7.2
Private Consumption	4.8	5.8	-0.5	-0.3	3.5	5.0
Government Consumption	5.9	9.9	8.4	3.1	2.0	2.9
Gross Fixed Capital Investment	10.7	9.6	9.5	9.3	9.4	10.0
Exports, Goods, and Services	8.3	-5.1	-5.3	-2.8	0.2	2.6
Imports, Goods, and Services	5.9	-4.1	-13.4	-6.9	-5.3	1.1
GDP, at constant factor prices	9.4	8.0	9.0	7.5	7.2	7.2
Agriculture	6.8	6.9	6.8	6.6	6.5	6.5
Industry	6.0	5.7	5.8	4.5	4.0	4.2
Services	12.0	9.3	11.1	8.9	8.4	8.4
Inflation (Household Consumption Deflator)	10.2	10	10	9.0	8.0	8.0
Inflation (Consumer Price Index, official)	6.8	6.1	5.6	5.5
Current Account Balance, % of GDP	2.9	1.7	0.9	0.8	0.9	1.0
Fiscal Balance, % of GDP	2.5	2.0	0.4	0.3	0.6	0.7

Source: Government of Uzbekistan National Statistics and World Bank staff calculations for 2013-15, and World Bank forecasts for 2016-18.

Notes: p-preliminary or expected growth of GDP, investment, export, import, agriculture, industry, and the current account balance figures are official preliminary estimates, the rest is Bank staff calculations); * -The years 2016-18 are projections based on official primary figures for the base year (2015).

12. Given the weakened external environment and the current policy framework, the medium term GDP growth forecast for Uzbekistan is for about 7 percent per annum, or 1 point lower than in recent years, and with downside risks (Table 1). The government’s package of fiscal, private sector, and sectoral reform policies (especially for agriculture) are expected to help maintain agricultural growth averaging 6-7 percent annually, while industrial and service sectors are expected to expand more slowly due to trading partners’ lower growth and lower remittances. Fiscal and external balances are expected to deteriorate but remain positive, with external debt increasing to around 19 percent of GDP by 2018.

Poverty and Shared Prosperity

13. According to official data, poverty has declined steadily from 26 percent in 2005 to 13.5 percent in 2015.⁴ Using the same official data, the elasticity of poverty to per capita GDP growth was 0.5, that is, for every 1 percent increase in per capita income, poverty declined by 0.5 percent—below average by international standards, which poses the question why GDP growth has not translated into greater benefits to the population, especially in terms of better income earning opportunities. Other measures of poverty such as the share of the population living below US\$2/day are not available.

14. Access to basic utilities varies among household groups and between urban and rural areas. While electricity appears to be available almost everywhere, access to other services differs significantly based on location. According to the CALLIS⁵ (2013), only 49 percent of rural households have access to tap water compared to 79 percent of urban households. Similarly, rural households have lower access to public heating, natural gas, hot water and sewerage systems. Access to public/piped heating is almost non-existent in rural areas, whereas 13 percent of urban households have access and the rich more so than the poor.

15. According to the 2010 Life in Transition Survey (2010), access to basic utilities in rural areas and among the bottom 40 percent improved during 2006-10. For example, access to tap water and fixed telephone lines almost doubled, while access to piped gas increased by 50 percent. The bottom 40 percent of the population also saw larger gains compared to the top 60 percent.

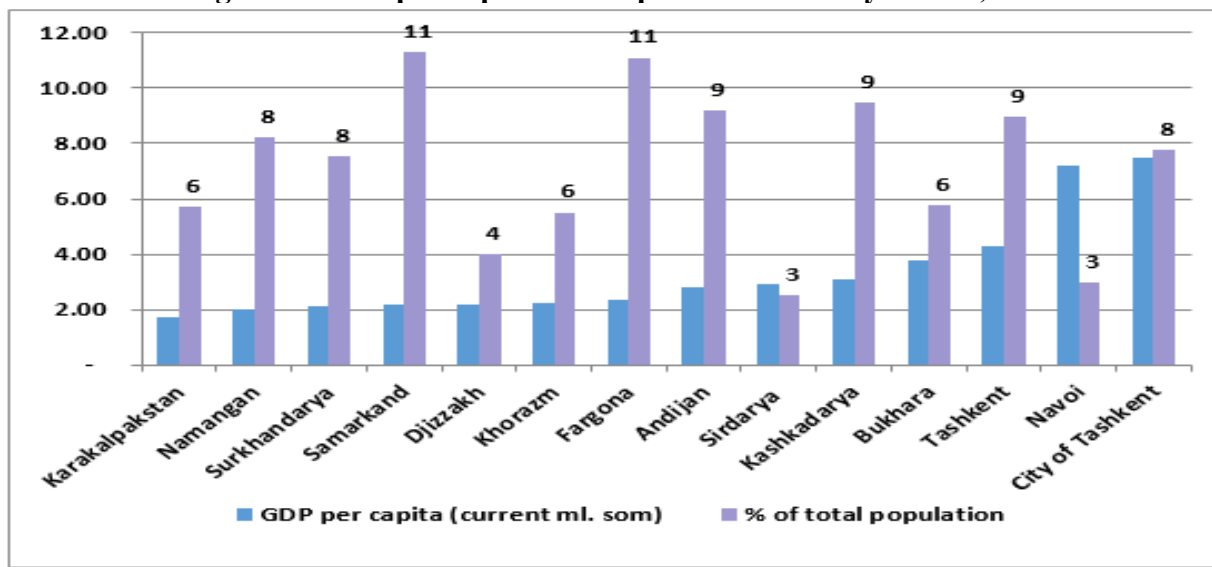
16. Based on summary data provided by the authorities, growth over the past decade appears to have been broadly inclusive. However, these summary statistics are difficult to interpret without access to the underlying micro data since, for example, they imply that household incomes grew much faster than GDP. The *gini* coefficient is officially reported to have declined from 0.39 in 2001 to 0.30 in 2012. Considerable geographic disparities remain and the poorest oblasts (Karakalpakstan, Namangan, Surkhandarya, Samarkand, Djizzakh, and Khorezm) are those with largely rural populations and low population densities (Figure 3). Female poverty tends to be higher, particularly in rural areas, where access to formal employment remains limited.

17. Access to household survey data would be essential to understand *whether and how* economic growth has translated into higher incomes and better living standards. Data from such surveys would also provide insights into whether the government's programs—physical infrastructure and social programs alike—are reaching the intended beneficiaries. Household survey combined with labor force data would be especially important to understand the translation of growth into more jobs and higher wages.

⁴ Originally introduced by the World Bank in 2000-01, the authorities' methodology needs to be revised in order to address such gaps as spatial price differentials, time differentials, and the non-food expenditures component in the poverty line.

⁵ World Bank/GIZ Uzbekistan Jobs, Skills, and Migration Survey (2013).

Figure 3: GDP per capita and Population Share by Oblast, 2013



Source: Official statistics provided by the Government of Uzbekistan.

Development Challenges

18. Despite Uzbekistan’s success, quality job creation emerges as a central, cross-cutting theme of the SCD. Over the medium term, creating high-productivity, high-paying jobs for Uzbekistan’s growing population will be vital to sustaining economic growth, reinforcing social stability, and enabling further improvements in the welfare of the bottom 40 percent households. These higher-paying jobs will come as Uzbekistan transitions from a factor-driven economy to an efficiency-driven economy. SCD also pointed to significant opportunities to further develop infrastructure (especially in energy, water and transportation) and to strengthen the management of those sectors and make efficiency gains. Within this development framework some pressing development challenges have been identified.

19. Unfortunately, limited data availability and capacity for evidence-based policy making constitute a fundamental development challenge. The SCD explicitly recognizes that its analysis is limited, owing to the paucity of credible economic, financial, and social statistics and the lack of access to household survey data. Data availability issues thus preclude a full understanding of recent economic developments and evidence-based policy formulation. They also make it difficult to confirm administrative data, determine where the gaps lie in terms of basic needs, and prevent a full analysis of poverty levels, poverty dynamics, and the evolution of prosperity by income group.

20. A second principal development challenge, given the rapidly increasing labor force, is the creation of good jobs. This will require *inter alia* accelerated transition from a state-dominated toward a private sector-driven, market-based economy. Uzbekistan’s public sector will not be able to create the large number of jobs needed to meet the needs of a labor force that is projected to continue increasing until 2040. Private sector development and investment are thus essential. In this context, urbanization will likely make cities the focus of job creation: with increasing rural-to-urban migration and employment in agriculture expected to fall by up to 1 million by 2020, a larger share of new jobs will need to be located in urban areas. If the economy

can create good jobs, the growing labor force and declining dependency ratio create an opportunity for rapid growth in per capita income.

21. Third, Uzbekistan has hitherto relied heavily on the use of natural resources, notably energy and water, which raises concerns of long-term sustainability. Uzbekistan is one of the most energy intensive economies in the world. Its energy infrastructure is inadequate to meet current demand, while prices below long-run supply costs continue to contribute to significant inefficiencies. Water efficiency is similarly very low and requires better pricing based on reliable data. Aside from the environmental consequences of desertification and salinization, water scarcity is becoming a binding constraint to growth in irrigated agriculture. Public health is also starting to be adversely affected as water supplies dry up during the summer, particularly in downstream oblasts.

22. Fourth, as pointed out in the SCD, Uzbekistan’s governance system presents several distinct development challenges. First, SOEs’ dominant role in the economy creates institutional obstacles to competition in the marketplace and fragments business regulation. Second, SMEs’ lack of access to finance, information on business opportunities, and entrepreneurial skills, combined with a heavy regulatory burden, comprise an institutional environment that is not conducive to SME growth and development. Finally, poor access to information on government policies and performance, centralization of decision-making and insufficient delegation, absence of results-based management in public service delivery, and insufficient skills of public officials all need to be addressed to reduce institutional barriers to growth.

23. Finally, the SCD identified ten issues that would need to be addressed if the government is to achieve its goal of achieving upper-middle-income status by 2030. In order to prioritize policy and investment actions, these issues were organized according to their potential impact on the WBG’s twin goals of poverty elimination and shared prosperity. Six filters were then applied to prioritize actions, as follows: (a) the magnitude of their impact on the twin goals; (b) their reform potential; (c) the time horizon of their impact; (d) the links with preconditions for a productive life; (e) the complementarities with other actions; and (f) the adequacy of the evidence base.⁶ Applying these six filters, the following sets of priorities emerged:

- Those that **ranked highly on at least four filters, i.e. with potential for significant short and medium term impact on the twin goals**, include:
 - strengthening allocative efficiency and competition by removing market distortions;
 - establishing a high-quality regulatory environment for firms;
 - promoting reallocation of land towards more productive uses;
 - modernizing public infrastructure;
 - addressing labor market weaknesses;
 - mitigating spatial inequities in access to social services, especially drinking water and sanitation; and
 - promoting the sustainable use and management of natural resources.
- Those that **ranked highly on three or fewer filters, i.e. with potential for medium and longer-term impact on the twin goals**, include:

⁶ Uzbekistan: Systemic Country Diagnostic, Chapter 5: Prioritization

- widening access to pre-primary and tertiary education and ensuring access to quality health care;
- addressing inefficiencies in social protection; and
- making public administration more transparent and accountable.

24. Data limitations are a cross-cutting issue in the SCD. Significant improvements in both information management and transparency are needed to better understand the development challenges facing Uzbekistan. A strong evidentiary foundation will be vital to achieve an enduring policy consensus between the government and its development partners, including the WBG.

25. Addressing gender inclusion will also be key to meeting the country’s development objectives in a more challenging environment. While the legal framework for gender equality and women’s rights is relatively strong, practical implementation remains weak. Despite women’s formal legal equality with men, traditional patriarchal stereotypes and values remain, especially in rural areas where there has been significant rolling back of earlier gains.

26. The SCD also emphasizes that broad-based improvements in economic governance will be essential both for effective action and results in the above ten priority areas and also for achieving the government’s strategic growth and job-creation objectives. The economic governance agenda is extensive, ranging from governance of the financial sector and banking system and improved access to information, greater transparency, and enhanced public accountability to strengthened rule of law and the guarantee of basic economic freedoms, including addressing the issue of forced and child labor.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

A. Government Program and Medium-term Strategy

27. The government’s strategic objectives are for Uzbekistan to achieve upper middle-income status by 2030, implying income growth averaging 6 percent annually, and in particular to create 500,000 jobs annually. These objectives are consistent with the WBG’s twin goals of eliminating extreme poverty and increasing the well-being of the bottom 40 percent of the population.

28. Following the 2014/15 parliamentary elections and the formation of a new government, the Cabinet of Ministers approved a Program of Action to achieve its strategic objectives for economic development.⁷ It establishes seven objectives for 2015 and subsequent years, as follows:

- (a) *Increase the economy’s competitiveness*, through structural reform, modernization and diversification of industry, introduction of information and communication technologies, and strengthened macroeconomic stability;

⁷ Government of Uzbekistan, Program of Action of the Cabinet of Ministers, January 23, 2015: http://www.gov.uz/en/pages/perspective_program

- (b) *Provide complete freedom for private sector development*, by removing all obstacles and restrictions;
- (c) *Reduce government involvement in the economy*, to a strategically and economically reasonable size;
- (d) *Strengthen corporate governance*, through a radical change in principles and approaches and the adoption of international standards;
- (e) *Deepen domestic industrial production* through the expansion of inter-sectoral industrial linkages;
- (f) *Strengthen infrastructure*, particularly information, communications, and transport infrastructure; and
- (g) *Create conditions for rapid job creation*, particularly for graduates of professional colleges and universities.

29. The Program of Action recognizes that implementation will be the biggest challenge and will require major changes in economic governance. It states explicitly that effective implementation will depend on the efficiency of the Cabinet of Ministers and various government bodies and that “. . . therefore, the task [is to] resolutely eradicate the remnants of the administrative-command system and outdated management practices to further deepen ongoing economic reforms.” It also recognizes the public accountability issue and proposes to increase “. . . the responsibility of officials for the impact of their decisions.” Building effective economic institutions, including a monitoring system that provides for the accountability of officials and agencies, that replaces command-and-control mechanisms with market-based and service delivery ones is likely to be the most important factor determining the success or failure of the Program of Action.

B. Proposed WBG Country Partnership Framework

Lessons from CPS Completion Report, IEG Evaluation and Stakeholder Consultations

30. The Completion and Learning Review (Annex B) listed seven key lessons learned during implementation of the FY12-15 CPS, which have informed the design of this FY16-20 CPF:

- Close alignment with government objectives, as well as continued intensive dialogue, was important for the success of the WBG’s program. High-level policy dialogue was crucial for achieving a number of outcomes, particularly in the areas of agriculture and labor reform. The WBG should continue using its convening power to help the government coordinate development assistance and leverage the use of IBRD and IDA funds. Stronger collaboration among the Bank, IFC, and MIGA is warranted in order to maximize the WBG’s development impact, given the limits to financial resources.
- Despite a number of encouraging results, it is not known to what extent economic growth has resulted in improvements in living standards nor how any improvements

were distributed. Reliable data related to poverty and the dynamics of poverty are largely unavailable but are needed to understand and advise on policies.

- Cumbersome internal government procedures significantly hampered project effectiveness and implementation, thereby narrowing the space for effective IDA/IBRD support.
- The CPF should focus on fewer outcomes, monitored by observable indicators. The large number of indicators in the original FY12-15 CPS, though later reduced in the CPS Progress Report, made the results framework hard to use as a practical management tool.
- Taking a strong position on child and forced labor in the cotton sub-sector was effective in creating a change process that is achieving positive results. The emphasis on both ending current practices and modernization of the sub-sector in collaboration with other development partners has been effective but challenging.
- Detailed assessment of social risks related to child and forced labor, carried out following the Inspection Panel request, allowed the WBG to have a more informed, nuanced and strategic approach, which went beyond comprehensive risk mitigation to address systemic issues. Partnership with standard-setting organizations, such as the ILO, as well as close coordination with other development partners, enabled the WBG to use its leverage to facilitate the policy change process.
- Commitments to engage citizens/beneficiaries in monitoring and feedback need to be operationalized. Efforts are needed to ensure that planned citizen engagement components are implemented and they need to include women and youth.

31. Key lessons from IEG evaluations completed during the FY12-15 CPS period are also incorporated in this FY16-20 CPF. The most important include:

- Better understanding of the nature of the public administration, procurement, and financial management systems, as well as the working environment and culture, are essential at the design stage for the success of institutional reform and capacity-building efforts.
- The design and implementation of projects in new sectors need careful attention and adequate operational support, including building institutional capacities in project management, procurement, and financial management.
- Partnerships can have a strong impact on achieving project development objectives. Although partnerships generally bring additional financial resources, different corporate systems and different approaches frequently pose significant challenges during project implementation.

32. Stakeholder consultations were held in 10 of Uzbekistan's 12 oblasts and in Tashkent during October 2015 and are reflected in the CPF. Participants, who included representatives of civil society, NGOs, the private sector, project beneficiaries, and regional and local governments, expressed appreciation for WBG support and demonstrated keen interest in sharing their views on the proposed framework for future activities. In addition, the document was subject

to the online consultations that provided 8 weeks opportunity to the local and international community to review and comment on the document. The most important issues raised during consultations are reflected in the CPF and presented in Annex L.

33. Finally, the CPF draws on broader experience in the Bank which demonstrates that while traditional “bricks-and-mortar projects” are essential for achieving development impact, the full benefits of investment into infrastructure and public service delivery will not be realized unless key institutional and economic governance issues are also given high priority in country partnership frameworks.

Overview of World Bank Group Strategy

34. Since re-engagement in 2008, the WBG’s program in Uzbekistan has gradually increased in terms both of amount of financing and areas of engagement. As relations and trust improved, the WBG has become the government’s partner of choice for infrastructure development and selected areas of policy dialogue and reform. The WBG’s comparative advantage and the government’s preferences steered the program’s expansion, including the current CPF’s plans to engage in new sectors such as finance and markets, trade and competitiveness, private sector, privatization, and SOE governance.

35. The CPF’s principal objective is to support the government’s goal of creating up to 500,000 new, productive, and sustainable jobs annually, critical to the inclusive growth needed for Uzbekistan to achieve upper middle-income status by 2030. Against this background, the ten priorities identified in the SCD have been grouped into three Focus Areas: (a) private sector growth, (b) agricultural competitiveness and cotton sector modernization, and (c) public service delivery. *First*, regarding *private sector growth*, a significantly improved investment climate and business environment could create the conditions for financial and real sector businesses to generate the jobs needed to employ Uzbekistan’s growing labor force. *Second*, *agriculture* merits special focus because it remains the largest source of employment, especially of the poor and women, it offers large opportunities for productivity improvements, and it embodies many of Uzbekistan’s most pressing environmental sustainability issues. Gradually, but substantially, eliminating state production quotas in agriculture and modernizing the sector are also key to reallocating land to more productive uses, eliminating risks of forced labor in the cotton sector, and sustainable natural resource management. *Third*, significantly improved *public service delivery* will be essential to modernizing infrastructure and reducing spatial inequity in service delivery and, in so doing, build the human capital and provide the infrastructure services needed for growth and job creation. Specific objectives are set out in each Focus area that all link directly to the ultimate objective of job creation. The WBG has developed a knowledge base in a number of these areas, along with implementation experience in each Focus Area, and an ongoing portfolio of projects and analytics that will gradually produce results in FY16-17 (Table 2 below), and an indicative pipeline of planned new lending and analytical activities for FY18-20 (Annexes F and G).

36. Specific interventions addressing the ten priorities identified in the SCD would be defined based on their potential for job creation and/or the opportunity they may offer to move forward on new issues. These criteria are necessarily broadly defined and the WBG will not engage in every area. Besides a division of labor among development partners, two filters will be applied in selecting particular WBG interventions. The first would simply be the potential for

new job creation, directly for some interventions and indirectly for others in terms of creating conditions and/or removing barriers. The second would be the opportunity to address longstanding structural problems in Uzbekistan's economy. Such opportunities could be the result of analytic and advisory activities undertaken by the WBG or others, as was the case for transport in the last CPS; they may also be the outcome of the authorities' emerging interest driven by internal or external developments, as was the case for corporate governance and privatization. In both cases, such opportunities will be largely defined by the government's readiness to move forward on a given agenda. The WBG will also seek to utilize innovative and/or highly pragmatic approaches to analytic work to address important issues on which government readiness is unclear.

37. The CPF's three Focus Areas reflect and complement current and planned activities of other development partners. The Asian Development Bank's (ADB) current strategy promotes inclusive growth through diversifying the economy and regional cooperation. ADB financing is concentrated on transport, water, and access to finance. The Islamic Development Bank (IsDB) provides financial support in agriculture, education, energy, health, transport, small and private business, and public financial management. The EU's Multi-Annual Indicative Program for 2014-2020 sets rural development as the core sector of concentration. Japan's Country Assistance Policy for Uzbekistan supports energy, agriculture, energy, healthcare, human resource development, rural development, transport and institutional building. UNDP's [Country Program Action Plan \(2010-2015\)](#) concentrates on technical assistance in three areas: [governance](#), [economic governance](#) and poverty reduction, and [environment and energy](#). The WBG works closely with all these development partners to ensure strong collaboration both at the sectoral and project levels.

Table 2: Ongoing Advisory Services and Analytics (ASA) and Project Portfolio

CPF	Sector	Projects
Focus Area 1: Private sector growth and job creation	Agriculture	<ul style="list-style-type: none"> Rural Enterprise Support Project - Phase 2 Sustainable Agriculture & Climate Change Mitigation Horticulture Development
	Transport Financial	<ul style="list-style-type: none"> Regional Roads Development IFC Hamkorbank (equity investment & GTFP) IFC Asaka Bank (GTFP)
	ASA	
	Financial	<ul style="list-style-type: none"> IFC Azerbaijan and Central Asia Financial Infrastructure (Credit Reporting, Secured Transactions, Financial Literacy) IFC Europe and Central Asia Sustainable Energy Finance Program (Energy Efficiency financing)
	Multisector	<ul style="list-style-type: none"> IFC Europe and Central Asia Resource Efficiency Program
Focus Area 2: Agricultural Competitiveness	Projects	
	Agriculture	<ul style="list-style-type: none"> Rural Enterprise Support - Phase 2 Sustainable Agriculture and Climate Change Mitigation Horticulture Development
	Financial Irrigation	<ul style="list-style-type: none"> IFC Indorama Ferghana Valley Water Resources Management South Karakalpakstan Water Resource Mgt. Improvement
	ASA	
	Agriculture	<ul style="list-style-type: none"> PSIA of Cotton Harvest Mechanization IFC Agribusiness Standards Advisory Program in Europe and Central Asia (Food safety and E&S standards) IFC Central Asia Agrifinance Project (Agrifinance and Agricultural Supply Chains)
Focus Area 3: Public Service Delivery	Projects	
	Education Health Social Protection	<ul style="list-style-type: none"> Improving General Secondary & Pre-School Education Project Modernizing Higher Education Project Health System Improvement Project
	Energy	<ul style="list-style-type: none"> Modernizing Safety Nets in Uzbekistan Energy Efficiency for Industrial Enterprises Scaling up Energy Efficiency in Buildings Talimarjan Transmission Advanced Electricity Metering
	Transport Water Supply & Sanitation & Water Resources	<ul style="list-style-type: none"> Pap-Angren Railway Regional Roads Development Syrdarya Water Supply Bukhara & Samarkand Sewerage Alat & Karakul Water Supply
	ASA	
	Energy Water Supply & Sanitation & Water Resources	<ul style="list-style-type: none"> Planning Study for Power Sector Water Resources Assessment
Economic Governance	ASA	
	Governance	<ul style="list-style-type: none"> Improving Public Procurement Outcomes IFC State-owned Enterprise Governance IFC Tax Administration Reform

38. Building country systems for statistical, fiduciary, safeguard, and statistical capacity underlie the foundation of this CPF. As already discussed above and in the SCD, lack of or limited data impede analysis of past performance, evidence-based policy-making, and public accountability and, in addition, make it difficult to monitor the progress of such planned outcomes as job creation and greater access to services. Similarly, weaknesses in fiduciary systems including lack of data and inadequate transparency compromise the results of public spending, which in turn undermines the rule of law and impedes successful implementation of WBG-financed projects. Equally, weaknesses in managing social risks, including involuntary resettlement, may delay project implementation and potentially harm affected people. While recent amendments have brought Uzbekistan’s legislation closer to international standards for social safeguards, gaps remain and, unless addressed, will continue to increase transaction costs, delay implementation, and potentially negatively impact citizens.

39. The CPF program will remain flexible as circumstances change and new opportunities may arise. Analysis and technical assistance has been key to broadening WBG engagement with Uzbekistan, whether in new sectors such as horticulture or transport or on sensitive issues such as child and forced labor. A special focus for future analytical work will be areas where the government has made strong statements of principle, but where specific actions, sequencing, and the pace of reform remain to be determined. These include: (a) reducing the role of the state in the economy; (b) improving access to and the quality of economic, labor and household data; (c) expanding private sector participation in the economy and improving Doing Business rankings; and (d) transforming and modernizing agriculture, including the cotton sub-sector.

40. WBG financing is now, and in the near term will remain focused on infrastructure investments. This is appropriate to meet the large unmet demand for such investment, to improve the competitiveness of the economy, and given the WBG’s comparative advantage in linking policy and investment. Over time, WBG financing could evolve towards large-scale structural reforms and areas where innovative approaches are required. Safeguards are a cross-cutting area that is often integral to large infrastructure and agricultural projects. Technical assistance will be provided to strengthen government capacity in social and environmental safeguards and to bring legal requirements up to international standards.

Focus Area 1: Private sector growth

41. Private sector development will be essential to meet the government’s growth and employment creation goals. With the previous model of state-dominated investment and growth no longer sustainable, private enterprises will increasingly be the driver of job creation and growth that are central to the government’s job creation goals. Yet the private sector remains constrained by several factors including under-developed financial markets, an overly complex regulatory environment, unequal competition with SOEs, and the uneven transition to a market-based economy. The government recently adopted an ambitious strategy to address some of these constraints, at the same time opening more space to the private sector through a privatization and corporate governance program. Focus Area 1 is thus built around five objectives designed: (a) to improve the overall regulatory environment for business; (b) to strengthen private sector access to finance and financial services; (c) to stimulate private investment and job creation in agribusiness;

(d) to enhance corporate governance and facilitate an efficient and transparent privatization process; and (e) to broaden the policy dialogue on economic governance.

42. One of the objectives underpinning private sector growth is improvement of the overall regulatory environment for businesses. The quality of the regulatory environment continues to pose a significant barrier for businesses, particularly MSMEs. Key problems include overly complex regulations, high levels of regulator discretion, and multiple interactions with different agencies. A related issue concerns the need for improved governance that would include private sector participation in regulatory design, integrated use of public-private dialogue, feedback mechanisms, and appeals processes. While Uzbekistan has made considerable progress, illustrated by its improved ranking in Doing Business 2016, increased attention is still needed to ensure full, non-discretionary application of regulations to all economic actors. This CPF objective is expected to contribute to overall job creation by improving competitiveness and strengthening transparency, thus creating more opportunity for firms, large and small, to invest and grow. Specific improvements in the investment climate would be measured by surveys of firms or existing data sets such as Doing Business.

43. Another important objective is strengthening private sector access to finance and financial services. This objective requires two types of actions: *first*, the gradual elimination of key distortions in the financial sector, such as foreign exchange and cash currency controls, directed and preferential lending to public sector entities, and the use of the banking system for administrative functions such as currency and tax controls; *second*, is the progressive removal of specific barriers to financial access by MSMEs. This would involve *inter alia*: strengthening the financial infrastructure that supports MSMEs' access to finance; removing the bias against credit provision to small private enterprises; increasing the capacity of financial institutions to service MSMEs; and, strengthening the skills and entrepreneurial capacity of MSMEs, particularly of women and youth. These activities would impact job creation directly as more potential entrepreneurs are able to form and expand businesses as a result of improved access to finance and better skills. Progress towards achieving this objective would be measured by the number and volume of loans to MSMEs facilitated by IFC/WB clients, the share of MSMEs accessing bank credit, and the share of new business registrants headed by women and youth.

44. Stimulating private investment and job creation in agribusiness⁸ will contribute towards improvement of the overall efficiency of agriculture. To improve the overall efficiency of agriculture, private investment is needed to stimulate innovation, increase value added, and generate quality employment. Private agribusiness has the potential to lower production costs and to expand production of raw products into higher value-added activities that involve more skilled and technology-intensive production. For instance, private investment is indispensable to modernize the cotton ginning industry where there is a significant productivity gap, currently averaging 33 percent compared to 38-39 percent in other cotton-producing countries. Private investments in agro-production, agro-processing, and supply chain development supported by IFC are an opportunity to pilot private sector-led agricultural transformation by introducing market-led innovations in each of these areas. Introducing private investment would be the main driver to modernize Uzbekistan's agriculture, especially cotton. Meanwhile, value-addition to farm outputs could generate additional income for producers and create jobs in textiles and agro-foods for local

⁸ This objective also supports *Focus Area 2: Agricultural Competitiveness and Cotton Sector Modernization*

and regional markets. With much of the male labor force working abroad, many farms are managed by women and the recent growth of the agro-food industry is providing new job opportunities for women in rural areas.

45. Enhancement of corporate governance and facilitation of efficient and transparent privatization are essential. The WBG plans to help improve the efficiency, accountability, and transparency of SOEs by introducing international best practices in corporate governance, in line with the Roadmap on SOE Governance Reforms signed by the government. Corporate governance reforms include: (a) establishing good practice regulation on transparency and accountability, including a requirement for an internal audit function, publication of public-interest and large-entity annual financial statements with audits; (b) sectoral analysis and criteria for optimizing state participation; (c) improving the performance-monitoring of SOEs and business entities with state ownership; and (d) establishing a centralized database covering all entities (including subsidiaries and branches). In addition, assistance will be provided to strengthen the Center of Excellence in Corporate Governance⁹.

46. As for Public Private Partnerships (PPPs), the WBG will engage in policy dialogue with the government to open opportunities for private investors and other service providers in infrastructure and other largely government-led sectors in a structured and incremental manner that builds solid government capacity to manage PPPs. The CPF includes four types of intervention toward this end. First, the WBG would engage in policy dialogue to raise awareness of PPP options and challenges in each infrastructure sector. Second, it would support building an enabling PPP environment comprising legislation, infrastructure sector reform, regulatory bodies, and asset holding arrangements. Third, if the business environment becomes conducive, IFC may partner with the government in a few pilot PPP transactions with potential demonstration effects. Finally, the WBG would support capacity development for ministries and regulatory bodies, including technical assistance and South-South learning from peer countries. Activities under this fourth objective could also include IFC investment in real sector and infrastructure projects with the objective of stimulating job creation and building competitiveness. The jobs impact of these activities would arise from greater private sector participation in the economy, including new firms entering to work on PPPs. Indicators of progress would include successful privatizations of pilot assets with IFC assistance, the number of state-owned firms using IFRS, and the successful tendering of PPP projects.

47. Finally, efforts aimed at broadening the policy dialogue on economic governance are crucial. Economic governance is reflected not only in corporate governance and privatization activities, but also through policy dialogue on the transition to a more market-based economy. Uzbekistan's challenge will be how to gradually liberalize its economy over the medium or long term, maximizing the positive and minimizing any negative impact on the poor and bottom 40 percent of households. Phasing liberalization, creating the right incentives, and supporting the most

⁹ Following the issuance of Presidential Decrees #4720 and #2414, dated April 24, 2015 and September 30, 2015, respectively, former Higher School of Business under the Cabinet of Ministers was re-organized into the Center of Excellence on Corporate Governance. The main objective of the Center is to provide in-service training on corporate governance for managerial staff of state-owned enterprises, joint stock companies and other business entities.

vulnerable will help create the critical building blocks for a successful transition. Finally, addressing these critical policy questions will require an enhanced evidence base of micro- and macro-economic data. Additional issues in economic governance include investment climate reform and MSME development with priorities on strengthening government accountability to business service delivery, leveling the playing field among firms, and addressing corruption through reducing interactions between the state and the private sector.

Focus Area 2: Agricultural competitiveness and cotton sub-sector modernization

48. Given its land, water and natural endowments, agricultural traditions, and human resource base, as well as favorable location to major markets, Uzbekistan’s agriculture has considerable potential to improve productivity and growth. For example, cotton yields are only 35-50 percent of those of other producing countries. There are also significant gains to be made from diversifying into higher-value crops and livestock development, as well as post-production value-creation through the development of agro-enterprises in processing, distribution and marketing. Not least important, agriculture, currently accounting for 27 percent of total employment, can contribute to additional job creation. Switching to higher-value added crops and livestock development and integrating value-chains would create substantial off-farm employment upstream in support services and downstream in agribusiness for post-harvest operations, processing, storage, and export—and mainly in rural areas where most of the bottom 40 percent of the income distribution live.

49. However, agriculture will realize its full potential only if the structural barriers to productive deployment of resources, especially in cotton, are addressed. Currently, Uzbekistan’s farming system is dominated by cotton and wheat, which account for 70 percent of cultivated land but less than 20 percent of gross agricultural output. Smallholder (*dehkan*) farms operate on less than 10 percent of land but produce about 70 percent of gross agricultural output through horticulture and livestock. Export earnings from horticulture have recently exceeded those from cotton. Cotton production remains largely controlled by state-level decisions and supported by state-controlled monopolistic companies with limited innovation and efficiency. As a result, cotton continues to use not only excessive land and water resources but also government resources through large and inefficient subsidies that distort farming decisions, offer non-remunerative prices to farmers, limit private investments, and contribute to unsustainable and socially unacceptable practices in cotton production, especially at harvest time. Against this background, Focus Area 2 is built around two objectives designed: (a) to facilitate a market-led modernization of the cotton sub-sector; and (b) to sustain agricultural growth through diversification to higher-value, more job-intensive but less water-intensive crops.

50. While contributing towards market-led modernization of cotton, the WBG will help the government implement its recently prepared *Action Plan for Improving Labor Conditions, Employment and Social Protection of Workers in Agriculture during 2016-2018*. The plan recognizes the need to improve performance by tackling specific inefficiencies in the cotton value chain and by establishing market-driven incentives. Thus, the government intends gradually to replace the cotton quota system with market incentives, encouraging farmers to increase productivity and to diversify, while stimulating innovation and efficiency. The WBG would facilitate this transition towards a market-led and privately-managed reform of the cotton sub-sector first by advising the government on the design of a modernization program, providing

direction for short-, medium-, and long-term policy measures and operational investments, and second by helping implement this program. Sequencing issues, institutional options, and pilot reforms would receive particular attention.

51. Cotton productivity and profitability are also undermined by poor irrigation performance resulting from aging hydraulic assets, energy intensive water supply, and water intensive irrigation techniques. WBG-funded projects have demonstrated the feasibility of dramatic improvements in water use. However, further investments in irrigation infrastructure modernization and rehabilitation, service delivery improvement, performance management, and cost recovery are crucial for the sustainable intensification of cotton cultivation as well as its adaptation to climate change. WBG cooperation in this area would include support for the management of transboundary water resources and strengthening Uzbekistan's role in regional and international water dialogue through capacity strengthening, support for data monitoring, and modernization of information platforms. The Central Asia Energy and Water Development Program (CAEWDP) will continue to play an important role in supporting improved management of water resources. Progress would be measured by improved quality of water resources service delivery.

52. Sustainable agricultural growth can be achieved through diversification to higher-value, more job- and less water-intensive crops. While the state sets output quotas for cotton and wheat, other crops have shown dramatic growth in recent years and the value of horticulture exports now exceeds that of cotton. Labor and water productivity for horticulture, forage, and other crops is much higher and can increase further. As a result of cotton sub-sector reforms, more land will become available for diversification. Against this background, the WBG would support farmers and private investors in strengthening emerging value chains in horticulture and livestock production. The effective development and growth of MSMEs in agri-business would be supported by enhanced access to credit under Focus Area 1. Complementary technical support would be delivered to agri-business MSMEs under this Focus Area to strengthen their agro-entrepreneurial capacities and technical know-how and to ensure their inclusion in private sector-driven agricultural value-chains. Progress would be measured by the number of hectares under horticulture and fodder production.

Focus Area 3: Public Service Delivery

53. The quality of public service delivery is an important determinant of the economy's capacity to generate economic growth, reduce poverty, and create jobs. Improved service delivery in the environmental, infrastructure and social sectors is key to generating the human capital and infrastructure needed for job creation, as well as for realization of the objectives laid out in Focus Areas 1 and 2. However, both the quality and quantity of most public services fail to meet current demand and seriously constrain future growth. In addition, significant differences in geographic access cause inequality of opportunity and impede both poverty reduction and income growth. Improved energy, transport, solid waste management, and urban infrastructure and services are, in turn, needed to respond to unmet demand and address infrastructure gaps. In addition, rapidly growing urban centers are playing an increasing role in job creation, as most new jobs are being created in urban areas and their connected regions. Against this background, Focus Area 3 is built around four objectives designed: (a) to improve the quality of public education; (b) to increase access to, and improve the quality of water supply and sanitation services; (c) to

improve energy security and efficiency and reduce energy intensity; and (d) to increase the reliability and reduce the cost of transport services and improve the efficiency of local infrastructure service delivery.

54. WBG will remain engaged in quality improvement of public education and health services. While Uzbekistan's children enjoy nearly universal access to essential health and nutrition, the 25 percent national enrollment rate in early childhood care and education is low by international standards. Second, while access to general secondary education is nearly universal, learning outcomes and the quality of education vary by region, with schools in rural areas faring worse in terms of available teaching and learning materials, quality of infrastructure, and student outcomes. Third, Uzbekistan's higher education system is characterized by low access, weak quality assurance, and insufficient linkages with employers. For example, 73 percent of firms surveyed in 2008 indicated that workers' education posed an obstacle in doing business. The WBG will seek to encourage innovative approaches in improving quality assurance systems and strengthening the learning environment in higher education institutions. It would focus on improving access to early childhood education in rural areas and strengthening quality assurance systems for secondary and tertiary education in order to improve learning outcomes and labor market relevance. Progress will be measured by monitoring increased enrolment in early childhood education and the increase in labor market relevance of higher education received by students, civil society, and firms through regular surveys.

55. Efficiency of health service delivery is another area for WBG support. Though key health indicators have improved, more progress is required. In order to financially protect the population and reduce high out-of-pocket expenses, the Government needs to increase public expenditure on health and efficiently manage health financing. The WBG will continue supporting the Government in improving delivery of services by upgrading health facilities, updating treatment protocols, revising professional medical education, and strengthening the quality assurance framework. Depending on market developments, the IFC may consider possible investments in private health care services.

56. Increased access to and improvement of the quality of water supply and sanitation services will remain important area of engagement. Improving water supply and sanitation services by expanding coverage in underserved, low-income areas would result in significant productivity gains at the household level by freeing time, reducing the incidence of water borne diseases, and avoiding costs associated with scarce service delivery. This would directly support the government's commitment to achieve universal and equitable access to safe and affordable drinking water, sanitation, and hygiene by 2030. Progress would be measured by increased water and sanitation coverage rates.

57. Improvement of energy security and efficiency as well as reduction of energy intensity directly contributes to economic growth and job creation. Twelve percent of firms in Uzbekistan identify electricity as a major constraint to doing business and average losses due to power outages are reportedly equivalent to 7 percent of annual sales. In terms of job creation, comparator studies indicate that thousands of jobs for electricity generation, transmission, and improved energy efficiency in buildings can be created. Progress would be measured by reduced electricity transmission/distribution and gas losses, fewer power and gas outages, and lower gas and electricity consumption per unit of GDP.

58. Increased reliability and reduced cost of transport services as well as improved efficiency of local infrastructure service delivery are key factors that will strengthen competitiveness in Uzbekistan’s domestic and export markets. Ongoing and proposed projects aim to reduce costs and increase capacity both for cargo and passengers through the construction of reliable railway links and regional road networks. Of specific interest are the new challenges faced by medium-sized cities that are experiencing rapid, unmanaged growth, resulting in growing demand for municipal infrastructure and services. While continuing analytical work in this area, including in affordable housing and management of solid waste, possible investment operations may be added to the CPF program. Meanwhile, progress towards transport objectives would be measured by reduced road user costs and improved efficiency and reliability of rail services.

Cross-Cutting Areas of Engagement

59. The CPF focuses on data availability and reliability to support macroeconomic policy dialogue, underpin planned investments, and monitor CPF results. The lack of new data and limited access to existing data impede assessing economic performance and social outcomes, hinder preparation of economic projections, and undermine the credibility, relevance, and timeliness of WBG policy advice. Data limitations were identified as a major constraint in preparing the SCD; and analytical work needed to underpin planned lending will be impossible absent better access to standard economic datasets, improved information about government policies, and raw data on living standards. Together with other development partners, particularly the IMF, the WBG will continue to work with the authorities on strengthening statistical institutions and information disclosure.

60. Information availability is also a key constraint to increased citizen engagement. While Uzbekistan fares poorly on voice and accountability indicators, several changes were made to the legal framework in 2014 that could shift state-non-state relations. The impacts of these reforms remain to be seen, but they may provide an opportunity for community-driven development interventions and hybrid public-private social service provision that could enhance stakeholder participation in local development. In addition, there is the potential for enhanced access to information on the functions and services of government. The WBG will support these developments through the expansion of social assessments during project preparation and the incorporation of citizen/beneficiary engagements in project design. Technical assistance support would also strengthen the capacity of implementing agencies in citizen engagement initiatives.

61. IDA’s special theme of gender equality will be addressed across the portfolio. The WBG would seek to improve gender equality in Uzbekistan by focusing on: (a) improving human capital endowments; (b) removing constraints to more and better jobs; (c) reducing barriers to women’s ownership of assets; and (d) increasing voice and agency for women. While Uzbekistan’s legal framework for gender equality and women’s rights is relatively strong, practical implementation remains weak. A review of barriers to rural women’s participation in formal labor markets and entrepreneurial activity will be undertaken in order to have an evidence base for a future targeted intervention. The WBG will also support efforts: to increase access to micro-credit and medium-sized credit facilities for female entrepreneurs; to provide advisory services, training, mentoring, and network schemes for women; and to establish mechanisms to access social programs and leverage funds for the creation of assets through community-driven development

and rural social infrastructure and services activities. Given the difficulty of changing norms and stereotypes, WBG support would be targeted to specific project interventions. For example, public awareness campaigns would focus on breaking down gender self-selection in higher education; and interventions in energy, transport, and ICT would seek to introduce enabling measures for women to enter these male-dominated sectors. To the extent possible, all WBG-financed operations would have gender-disaggregated results indicators.

62. Since Uzbekistan, like all countries in Central Asia, is highly vulnerable to climate change, increasing resilience is an important consideration in all WBG interventions. Higher temperatures, greater variability in precipitation, and increased frequency of extreme weather events is increasing pressure on water, land, biodiversity, and ecosystems. WBG activities for increased climate resilience would focus on three areas. First, support to agriculture would aim to increase resilience by diversification to less water-intensive crops, introduction of water saving techniques, and modernization of irrigation systems. Second, all infrastructure investments would be screened both in terms of physical resilience to likely climate change and of economic returns if climate change considerations were fully costed. Finally, the WBG would continue to promote collection of better data on climate change and water flows in the Syr Darya and Amu Darya basins and support increased consultation by riparians to manage water resources for mutual benefit.

C. Implementing the Country Partnership Framework FY16-20

Financial Envelope

63. The proposed IDA/IBRD financial envelope reflects the WBG's growing partnership with Uzbekistan. It would total up to \$3 billion over the five-year CPF period, of which about one-third would be on IDA and two-thirds on IBRD terms. An indicative FY16-20 lending program is summarized at Annex F.

64. For the current FY16-18 cycle, the IDA allocation for Uzbekistan is SDR462 million, or about \$646 million.¹⁰ For FY16, the allocation is SDR160 million, or about \$224 million. However, amounts shown for outer years are indicative only, with actual allocations being subject to: (a) the total IDA resources available; (b) Uzbekistan's performance rating, per capita GNI, and population; (c) the terms of IDA assistance; (d) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (e) the number of IDA-eligible countries.

65. During the same FY16-18 period, investment lending on IBRD terms is expected to average up to about \$400 million annually. However, the actual volume and pace of lending will depend on program implementation, including the ability to address macroeconomic risks, the choice of instruments, the country's economic performance, and IBRD's lending capacity and demands from other borrowers.

66. IFC investments are expected to increase over the five-year CPF period. Amounts will depend on the government's progress in moving the economy from state-dominated to private-sector led growth, reforms to further improve the investment climate and the business environment, and the growth outlook in Uzbekistan's main commercial partners. Potential investments are

¹⁰ Allocations for FY19-20 will be determined under IDA18. The CPF assumes a similar allocation in IDA18.

foreseen in financial intermediaries to support increasing access to finance by individuals and MSMEs, agribusiness, oil, gas, petrochemicals, mining, and manufacturing (e.g., cotton processing). This would be complemented with advisory services aimed at: developing the financial infrastructure; improving the investment climate and business environment; and supporting PPPs through policy dialogue to build the enabling environment and government capacity, and to pioneer projects.

Financial Management and Procurement

67. Financial Management. The 2013 Public Expenditure and Financial Accountability (PEFA) assessment and the Accounting & Auditing ROSC¹¹ found that several aspects of public financial management (PFM) and corporate financial reporting were weak. These include: public access to key fiscal information; multi-year perspectives in fiscal planning, expenditure policy, and budgeting; competition, value for money, and controls in procurement; and effectiveness of internal audit processes. The latter is currently dominated by a control/inspection framework that relies on extensive external financial control activities undertaken by the Financial Inspection Department of the Ministry of Finance. While audited annual budget execution reports are presented in a consistent and very detailed way, they do not disclose accounting policies and other information required by international accounting standards. The Chamber of Accounts, the highest financial supervisory body, relies on desk reviews to identify unusual or suspicious activity, with field visits focused on areas of concern within budget organizations—an approach that is not consistent with good practices and acceptable standards. Moreover, there is no critical mass of professionally qualified accountants and knowledge of internationally recognized accounting and auditing standards is limited in both the public and private sectors.

68. In the WBG’s Worldwide Governance Indicators 2015, Uzbekistan scores in the bottom 2.5 percent of countries on voice and accountability, the bottom 27 percent on government effectiveness, and the bottom 11 percent on control of corruption.¹² However, since only the country’s planning and budgeting functions are currently used for WBG-financed projects, its financial management system does not impact implementation. If the government makes progress in economic governance, including PFM reforms, the country’s financial management risk will be re-visited and other elements of the country system could be used.

69. Procurement. The Country Integrated Fiduciary Assessment (2012) and the PEFA assessment found the following weaknesses in Uzbekistan’s public procurement system: (a) no unified legislative framework; (b) inefficient and non-transparent procurement practices; (c) no single institution with oversight or regulatory authority for public procurement practices; (d) weak capacity for review of bidder’s complaints; (e) complicated internal review/approval of bid evaluation reports leading to low accountability and delays; (f) no comprehensive anti-corruption measures; and (g) low skills/capacity of staff handling public procurement at every level. While procurement under WBG-financed projects is carried out according to World Bank Procurement and Consultant guidelines, the country’s fragmented procurement regulatory framework, bureaucratic processes, and low procurement capacity negatively affect procurement, resulting in slow procurement, lagging disbursements, and delayed project implementation. The WBG will

¹¹ Reports on Observance of Standards and Codes.

¹² Worldwide Governance Indicators 2015: <http://data.worldbank.org/data-catalog/worldwide-governance-indicators>.

support government efforts to improve the legislative and regulatory framework and build the capacity of its officials. More generally, the government's interest in improving public financial management and procurement in Bank-financed projects will be used as an entrée to work jointly on basic economic governance issues.

Managing Program Implementation

70. During the previous CPS, the WBG intensified efforts to improve country portfolio performance, which is characterized by delays in project effectiveness, protracted procurement, and weak implementation capacity. These efforts included: signing a Framework Memorandum of Understanding with the Government,¹³ resumption of monthly portfolio review meetings with the Ministry of Economy, reinforcement of the early warning mechanism for misprocurement, and quarterly disbursement forecasts. Technical assistance is also being provided to strengthen implementing agencies' capacity in procurement, financial management, monitoring and evaluation, and safeguards. Implementation support is also being strengthened by expanding the presence of senior procurement, financial management, and global practice staff in the country office.

71. With the proposed significant increase in lending, portfolio management and monitoring efforts will be further intensified and complemented with additional tools. In addition to the above-listed measures, annual disbursement targets at the country portfolio level will be established and serve as a measure of performance to assess appropriate lending volumes planned for the following fiscal year.¹⁴ Building upon positive trends emerging from the implementation of the Framework MOU under the previous CPS, the WBG and government have expanded it to cover the new CPF period and address major portfolio bottlenecks.

Partnerships and Donor Coordination

72. The WBG has established partnerships with the ADB, IsDB, JICA, SDC, and other development partners through co-financing and parallel financing of investment operations in the energy, transport, water supply and sanitation, and water resource management sectors. Other bilateral and donor organizations are mainly engaged through technical assistance programs. In addition, the WBG closely collaborates with the EU, US and Switzerland through the Multi-Donor Trust Fund to support activities related to the prevention of child and forced labor in Uzbekistan. There is no formal donor-coordinating body or framework in the country and donor activities are coordinated bi-laterally through the respective ministries and agencies.¹⁵ Some donor coordination efforts are undertaken by UNDP through the United Nations Country Team in which the Bank participates. UNDP and the government have recently signed a UN Development Assistance Framework for 2016-2020 in which the WBG will lead a number of in-country thematic groups (e.g., agriculture and water resource management).

¹³ The MOU aims to expedite the government's project preparation and advance procurement processes by launching both well in advance of Board approval.

¹⁴ Annual disbursement targets will be defined as an average disbursement forecast for each project, discussed with the government at the end of a FY and agreed for the following FY.

¹⁵ The Ministry of Economy is office of the WBG Governor in Uzbekistan.

IV. MANAGING RISKS TO THE CPF PROGRAM

73. Overall risk to the CPF program is rated as substantial. Three of eight risk categories are rated substantial—political and governance, macroeconomic, and institutional capacity for implementation and sustainability—and two are rated high: fiduciary and environmental and social.

74. Political will to undertake the structural reforms needed to open the economy to private investment is a key prerequisite for effective implementation of the CPF program. The needed reforms will confront longstanding vested interests in maintaining the *status quo*, while the authorities’ commitment to increase the economy’s market orientation and the role of the private sector remains untested. In addition to monitoring progress together with other development partners and stakeholders, this risk would be managed if not partly mitigated by providing advice on the sequencing and pace of reforms, as well as hands-on support to address capacity issues through technical assistance.

Table 3: Systematic Operational Risk-Rating Tool

Risk Category	Rating (H, S, M or L)
Political and governance	Substantial
Macroeconomic	Substantial
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	High
Environment and social	High
Stakeholders	Moderate
Overall	Substantial

75. Lack of detailed and reliable economic, financial, and social data is a substantial governance-related risk to CPF implementation. As discussed elsewhere in this CPF as well as in the SCD, limited access to even routine economic, financial, and social data impedes the assessment of economic performance and social outcomes, hinders the preparation of economic projections, and undermines the credibility, relevance, and timeliness of WBG policy advice. Moreover, the analytical work needed to underpin planned lending will require better access to standard economic datasets (e.g., disaggregated national accounts and fiscal and monetary accounts), improved information about government policies, and raw data on living standards. Together with other development partners, particularly the IMF, the WBG will continue to work with the authorities in strengthening statistical institutions and encouraging information disclosure. To manage this risk, the impact of data constraints on overall CPF implementation will be reviewed at mid-term and, if necessary, the program would be adjusted accordingly.

76. The uncertain global and regional economic environment poses a substantial macroeconomic risk that could affect CPF program implementation. While Uzbekistan’s economy proved more resilient than most during the 2008-09 global downturn, it remains vulnerable to external shocks affecting commodity prices and remittances. Prolonged slower

growth in key trading partners, such as China, Russia, and Kazakhstan, would slow export growth and further reduce remittances. A further drop in commodity prices would undermine external and fiscal balances. The WBG will continue to monitor regional economic developments and, if necessary, adjust the scope and focus of what is by design a flexible program. More broadly, the government's strategy to accelerate job creation, increase competitiveness, and diversify the economy, in particular agriculture - as well as CPF support in these areas - aims to mitigate this risk.

77. The risk of delayed program implementation and inefficient use of WBG resources as a result of weak institutional, especially fiduciary and procurement capacity, is rated as high. The WBG will continue to monitor fiduciary aspects of project implementation closely through regular portfolio reviews and external audits. In the event of continued systemic delays in procurement, the scope of lending would be reduced until a resolution is reached. The WBG will continue to support government efforts to improve the legislative and regulatory framework for procurement and to build the capacity of the officials concerned.

78. Finally, environmental and social safeguard risks are also rated as high due to the gap between national legislation and WBG safeguards requirements, as well as labor practices in the cotton sector. Although child labor has been largely eliminated, serious concerns remain about risks of forced adult labor during the annual cotton harvest. In partnership with key stakeholders, the WBG will continue to follow a holistic approach, which includes support for agricultural diversification, cotton subsector modernization and mechanization, and implementation of the Third-Party Monitoring and Feedback Mechanism. If any legal covenants were violated, suspension of disbursements or cancelation of loans could also be triggered.

Annex A: RESULTS FRAMEWORK

Focus Areas 1: Private sector growth		
<p>The growth of private firms, both small and large, is essential to meet the government’s growth and employment creation objectives. The private sector will increasingly be the driver of the job creation and growth that are central to the CPF’s job creation objective and the WBG’s twin goals. Yet the private sector remains constrained by several factors that are consistently raised in private sector consultations, analytical work, and the Uzbekistan SCD, including under-developed financial markets, an overly complex regulatory environment, uneven competition with SOEs, and the uneven transition to market-based economic policy</p>		
CPF Objective 1.1: Improved regulatory requirements for business		
<p>Intervention Logic: The Government recognizes that the current regulatory environment continues to pose a barrier for businesses, particularly small and medium-sized enterprises which bear a disproportionate regulatory burden relative to their revenue. Key problems include overly complex regulations, a high level of discretion by regulators, and multiple interactions with different agencies. A related issue concerns improved regulatory governance which would include private sector participation in regulatory design, integrated use of public-private dialogue, feedback mechanisms, and appeals processes. The quality of various regulatory procedures is uneven, with evidence from sources such as Doing Business suggesting particular problems exist in tax and trade procedures.</p> <p>The proposed WBG support is aimed at gradual elimination of key challenges that undermine competition, drive the private sector entities into the informal side of the economy and hinder their growth.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Time to export (border / documentary compliance) <i>Baseline:</i> 112/ 74 hours (DB 2016) <i>Target:</i> 45/67 hours (DB 2020)</p> <p>Indicator 2: Time to get a construction permit <i>Baseline:</i> 176 days (DB 2016) <i>Target:</i> 100 days (DB 2020)</p> <p>Indicator 3: Number of tax payments per year <i>Baseline:</i> 33 (DB 2016) <i>Target:</i> 19 (DB 2020)</p>	<p>Milestone: Positive reforms introduced and recorded by Doing Business <i>Baseline:</i> 3 (DB 2016) <i>Target</i> (cumulative): 12 (DB 2020)</p> <p>Milestone: Introduction of risk based customs control, leading to reduced physical border inspection <i>Baseline:</i> percent of good subject to manual control at the border: 100% (2015) <i>Target:</i> 80% (2020)</p>	<p>Ongoing ASA: Tax Administration Reform Project; Doing Business Reform Memo</p> <p>Proposed IPF: Business Environment Reform Project</p> <p>Proposed TA: Uzbekistan Trade Logistics Project, Investment Climate Reform TA.</p>
CPF Objective 1.2: Strengthened private sector access to finance.		
<p>Intervention Logic: While evidence based analytic data on the private sector in Uzbekistan are limited, sources such as Enterprise Surveys and private sector consultations undertaken as part of CPF preparation highlight the challenges of limited access to finance facing firms. WBG activities under this objective will focus both on increasing the skills and knowledge of SMEs while also addressing access to finance constraints through a combination of advisory services to financial institutions and as well as investments. New operations under this objective will seek to further address SME access to finance on the basis of a demand for financing TA.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: % of firms reported having a bank loan or line of credit <i>Baseline:</i> 37.8 (2013 – to be updated in 2017 from 2016 Enterprise Survey data)</p>	<p>Milestone: Banks utilize improved moveable asset collateral registry to secure more loans with moveable assets.</p>	<p>Ongoing IPF: RESP-2, Horticulture Development Project.</p>

<p><i>Target:</i> 45% (2020)</p> <p>Indicator 2: % of firms using banks to finance investment <i>Baseline:</i> 16.1 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 25% (2020)</p> <p>Indicator 3: % of firms with female participation in ownership <i>Baseline:</i> 29.2% (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 31% (2020)</p> <p>Indicator 4: % of small firms with access to a credit line <i>Baseline:</i> 57.9 (2015, CBU) <i>Target:</i> 70% (2020)</p>	<p>Percent of loans secured by moveable assets <i>Baseline:</i> 2% (2015) <i>Target:</i> 6% (2018)</p> <p>Milestone: Agribusiness portfolio in Hamkorbank growing <i>Baseline:</i> US\$12m portfolio (2015) <i>Target:</i> US\$18m (2020)</p> <p>Milestone: SME training curriculum adopted by Ministry of Economy <i>Baseline:</i> 0 <i>Target:</i> 1 (2018)</p>	<p>Ongoing IPF: GEF Sustainable Agriculture and Climate Change Mitigation Project.</p> <p>Proposed IPF: Jobs and Skills for Modern Economy Project</p> <p>Proposed ASA: F&M survey on MSMEs’ demand for financing</p> <p>Ongoing IFC AS: Central Asia Agrifinance Project (advisory services to FIs and agri supply chains in dairy sector), Financial Infrastructure Project (Credit Reporting, Secured Transactions, Financial Literacy), Hamkorbank Capacity Building Advisory Services.</p> <p>Potential IFC IS and AS: New IFC mandate letters signed with financial sector or real sector clients</p>
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CPF Objective 1.3: Increased private sector investments.

Intervention Logic: To improve the overall efficiency of the agricultural sector, the Government recognizes the need to attract private investments to introduce innovation, increased value added and generate quality employment. Private agribusiness enterprise development has the potential to lower production costs and to expand production of agricultural raw products into higher value-added activities that involve more skilled and technology-intensive production. The CPF will support the Government in attracting and facilitating private investments in agricultural value chains through TA in support of developing an agri-business enabling environment and operational investments in agro-processing and marketing. More specifically, Bank and IFC investments in the agro-production, agro-processing industry and marketing will give an opportunity to introduce private sector-led innovations in production, processing and marketing operations.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Increase in overall sales of agribusinesses benefiting from WBG operations: <i>Baseline:</i> 0 <i>Target:</i> 20% (2020)</p>	<p>Milestone: 2,000 agro-entrepreneurs are benefitting from credit lines (2018)</p>	<p>Ongoing IPF: Rural Enterprise Support Project 2, Horticulture Development Project, GEF Sustainable Agriculture and Climate Change Mitigation Project.</p> <p>Proposed IPF: Livestock Development Project, Horticulture Development Project (AF), Agriculture Modernization and Competitiveness Project.</p> <p>Proposed ASA: Agriculture Modernization Strategy.</p> <p>Ongoing IFC INV: Indorama Textile Project and other investments in agri-business industry.</p>

CPF Objective 1.4: Enhanced corporate governance for facilitation of the efficient and transparent privatization process.		
<p>Intervention Logic: The WBG plans to support the Government’s efforts in improvement of the efficiency, transparency and accountability of State Owned Enterprises (SOEs) through introduction of international corporate governance (CG) good practices. This is in line with the Roadmap on SOE Governance Reforms signed by the Government and the Bank. The CG area cover (i) establishment of the good practice regulation on transparency and accountability, including requirement for establishment of internal audit function, publishing public interest and large entities annual financial statements prepared based on International Financial reporting Standards (IFRS) and audited in accordance with International Standards on Auditing (ISA), (ii) development of a clear approach directed for reduction of state involvement in the economy to the extent justified by strategic factors, based on collected information on the sector and applying criteria for mapping and optimizing of state participation, (iii) improvement of the performance monitoring of SOEs and business entities with state ownership, and (iv) establishment of centralized database covering all the entities (with subsidiaries and branches). In addition, the CG area will target strengthening the Center of Excellence in CG.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Establishment of improved corporate governance system at large SOEs</p> <p><i>Baseline:</i> No SOE with relevant corporate governance system in place (2015) <i>Target:</i> Five large SOEs have the corporate governance system established and audited IFRS (2020).</p> <p>Indicator 2: Number of SOEs divested by the Government</p> <p><i>Baseline:</i> None <i>Target:</i> 2</p>	<p>Milestone: Curriculum and training materials are prepared and are used for training delivery.</p>	<p>Ongoing ASA: Implementation of the Roadmap</p> <p>Proposed ASA: SOE Corporate Governance TA, Public Expenditure and Financial Accountability (PEFA) assessment, Accounting and Auditing ROSC (AA ROSC)</p> <p>Potential IFC AS: Transaction Advisory for Privatization of Two Fertilizer Plants.</p>
CPF Objective 1.5: Broadened policy dialogue on economic governance.		
<p>Intervention Logic: The lack of data and limited access to existing data impede the assessment of economic performance and social outcomes, hinder the preparation of economic projections, and undermine the credibility, relevance, and timeliness of WBG policy advice and interventions. WBG will continue to work with the authorities on strengthening statistical institutions and information disclosure through the proposed ASA on “Welfare Measurement of MICs” which is intended to provide such a platform for dialogue.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: The government will produce and publish estimates on the size of the middle class that are consistent with cross-country studies on the middle class.</p> <p><i>Baseline:</i> No (2015) <i>Target:</i> Yes (2020)</p>	<p>Milestone: A report on the middle class estimation methodology will be published.</p>	<p>Ongoing IPF: Modernization of Property Registration and Cadastre Project</p> <p>Proposed ASA: Programmatic CEM: Pacing of Market Reforms in Uzbekistan, Welfare Profile of the Population, Pathways to Global Middle Class, Public Expenditure and Financial Accountability (PEFA) assessment, Accounting and Auditing ROSC (AA ROSC)</p>

Focus Area 2: Agriculture Competitiveness and Cotton Sector Modernization		
<p>Improving the competitiveness of the agricultural sector is key for Uzbekistan economic growth, shared prosperity and poverty reduction. The country is geographically well positioned to take advantage of large and growing markets for agricultural produce domestically and abroad. Modernizing existing agricultural value-chains, diversifying production and stimulating value-addition will generate growth and provide job opportunities in rural areas where most of the bottom 40 percent live.</p> <p>Government has demonstrated stronger willingness to move away from directed interventions and production quota to promote a market-driven and privately-managed cotton value chain. This approach is at the center of the modernization agenda currently discussed with the Government. The proposed activities will provide technical assistance to design the required policy reforms and will deliver complementary investments to operationalize them on the ground and to facilitate the transition towards a market-led agro-food system.</p>		
CPF Objective 2.1: Increased efficiency in cotton sector through facilitation of a market-led modernization		
<p>Intervention Logic: The Government agrees that gradually replacing the cotton quota system by proper market incentives will encourage farmers to increase productivity and diversify, while stimulating innovation and efficiency. Improving the terms of trade for cotton production and giving greater flexibility in farming decisions will lead to more remunerative prices and will help farmers adopt a more economic and efficient use of land and water. Cotton productivity and profitability is also undermined by poor irrigation performance resulting from aging hydraulic assets, highly energy intensive water supply, and water intensive irrigation techniques. Reforming the cotton sector will be critical to stimulate productivity increase, attract private investments, improve efficiency in the whole value chain and unlock the diversification potential for other crop and livestock productions. The CPF will assist the Government in achieving its objective of improving the efficiency and overall performance of the agricultural sector through a combination of Bank and IFC technical assistance and investments that will facilitate a progressive transition towards market-led and privately-managed modernization of the cotton sector.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Cotton Productivity Increase <i>Baseline</i> : 2.1t/ha (2015) <i>Target</i>: 2.7t/ha (2020)</p>	<p>Milestone: Issuance of a Resolution on agricultural modernization program (2017)</p> <p>Milestone: Revision of Government’s cotton support program (2018)</p>	<p>Ongoing IPF: Ferghana Valley Water Resource Management Project, South Karakalpakstan Water Resource Management Improvement Project</p> <p>Ongoing ASA: Agricultural Modernization Program Design</p> <p>Ongoing IFC IS: Indorama Textile project.</p> <p>Proposed IPF: Ferghana Valley Water Resource Management Project – Phase 2 Agriculture Modernization and Competitiveness Project, Improving Water Security and Supply of Irrigated Land Project – Phases 1-3</p> <p>Proposed ASA: Agriculture Modernization Strategy.</p>
CPF Objective 2.2: Improved diversification of agriculture production to high-value, job-intensive, and less water-intensive crops.		
<p>Intervention Logic: The modernization of the cotton sector will free up space and resources for other crops and livestock opportunities to emerge and expand. The CPF will support the diversification dimension of the agriculture modernization program through interventions aimed at strengthening value chains in horticulture, diversified crop and livestock productions. Developing value chains from production to marketing will rely on market-led and</p>		

privately-managed initiatives. Promoting diversification will include supporting diversified production through demand-driven and market-oriented research and extension, efficient irrigation infrastructure, improved access to finance, and reliable access to marketing infrastructure and agro-processing businesses.

WBG will also provide support to strengthening water resources management, including the management of transboundary water resources. WBG will strengthen capacities, support data monitoring and invest in the modernization of water information platforms. Strengthening water resources management aims to improve public water service delivery to ensure that sufficient water of adequate quality is made available to those sectors that depend on it: agriculture, water supply, environment, industry and energy.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Increase in areas under horticulture, fodder crops and other crops (non- cotton/ wheat) <i>Baseline:</i> 584,000ha (2015) <i>Target:</i> 800,000 ha (2020)</p>	<p>Milestone: 250,000 ha of irrigated land rehabilitated with improved access to water for diversification and under sustainable water management (2019).</p>	<p>Ongoing IPF: Rural Enterprise Support Project 2, Horticulture Development Project, GEF Sustainable Agriculture and Climate Change Mitigation Project, Ferghana Valley Water Resource Management Project, South Karakalpakstan Water Resource Management Improvement Project, Central Asia Hydromet Modernization Project.</p> <p>Proposed IPF: Livestock Development Project, Horticulture Development Project (AF), Agriculture Modernization and Competitiveness Project, Central Asia Climate Adaptation & Mitigation Program for the Aral Sea Basin, Improving Water Security and Supply of Irrigated Land Project – Phases 1-3</p> <p>Proposed ASA: Agriculture Modernization Strategy, Enhanced Natural Resource Management Through Landscape Approach</p> <p>Potential IFC IS and AS: in agribusiness companies.</p>

Focus Area 3: Public Service Delivery

The Government recognizes that the quality of public service delivery is an important determinant for the capacity of the economy to create economic growth, reduce poverty and generate employment given the currently strong role of the State in the Uzbek Economy. Both the quality and quantity of most public services fail to meet current demand and constrain future growth. In addition, significant geographic differences in access create inequality of opportunities and impede both poverty reduction and income growth for the bottom 40 percent.

Improved quality of education, health, social protection and environmental services are essential to endow the growing labor force with the human capital while ensuring the sustainability of the investments. Improved energy, transport, solid waste management and urban infrastructure and services is, in turn, needed to respond to unmet demand and address infrastructure gaps and backlogs.

In addition, rapidly growing urban centers are increasingly playing a key role in job creation, as most new jobs are being created (and will continue to be created) in urban areas and their connected regions. Therefore, improving the efficiency of urban growth and expansion, creating livable and greener cities and ensuring integration and

coordination in the delivery of municipal services and infrastructures on fast-growing medium-sized cities would be essential to meet the objective of the Government of “creating the conditions for rapid job creation” and competitiveness.

CPF Objective 3.1: Improved access to quality education and health services.

Intervention Logic: Health service provision in Uzbekistan is affected by outdated health infrastructure and guidelines. In order to improve quality of health care provision WBG intervention will support improvement of health care facilities and enhancement of treatment standards and clinical guidelines and continuous professional development of health care providers.

The education system in Uzbekistan needs to focus on improving quality. In particular, early childhood education and tertiary education have not received the kind of attention that primary and secondary education have received. Rural educational institutions face poor infrastructure and inadequate teaching and learning materials leading to low student learning outcomes. In higher education internal quality assurance system of higher education institutions and their link with labor market are weak. This results in many graduates not being able to find work in area of specialization and those who do often lack the level and mix of skills demanded by employers. The WBG interventions will support improving access to early childhood education in rural areas and development and strengthen of systems to monitor and enhance quality in both schools and higher education institutions.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Improved perceived quality of primary health care and secondary health care services <i>Baseline:</i> 85.5% (primary healthcare) and 69.5% (secondary healthcare) <i>Target:</i> 90% (primary healthcare) and 85% (secondary healthcare)</p> <p>Indicator 2: Percentage of children aged 3-6 enrolled in early childhood care and education in rural areas (<i>disaggregated by gender</i>) <i>Baseline:</i> 25.4% (2015) <i>Target:</i> 40% (2020)</p> <p>Indicator 3: Increased index of labor market relevance of higher education perceived by students and firms <i>Baseline:</i> 0. <i>Target:</i> 20%</p>	<p>Milestone: Preprimary education teachers trained to deliver the project half-day model (2016)</p> <p>Milestone: Quality enhancement cells established in 40 universities (2019)</p> <p>Milestones: Percentage of universities with quality enhancement cells that use HEMIS data for planning and decision-making <i>Baseline:</i> 0 (2016) <i>Target:</i> 90% (2021)</p>	<p>Ongoing IPF: Health System Improvement Project, Improving General School and Pre-school Education Project (GPE-funded) Modernizing Higher Education Project</p> <p>Proposed IPF: Emergency Services Improvement Project, Modernization of Vocational Education – Phases 1-2.</p> <p>Proposed ASA: Health Sector Review, Review of vocational education challenges and opportunities, Analysis of teachers policy from pre-primary to tertiary education, Assessment of education MIS, Innovative learning environment in pre-university education, Socio-emotional skills development</p>

CPF Objective 3.2: Increased access to improved water supply and sanitation services.

Intervention Logic: WBG Ongoing and proposed operations will improve water supply and sanitation services in the country by expanding coverage in underserved, low income areas and upgrading distribution networks and modernization of water treatment, reduction of system losses; wastewater collection/ treatment and disposal; increased energy efficiency and utilities performance. This will result in significant productivity gains at the household level, by freeing time, reducing the incidence of water borne diseases, and avoiding costs associated with the current situation of scarce service delivery.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Increased access to safe drinking water in urban and rural areas.</p>	<p>Milestone: WSS National Strategy developed and adopted.</p>	<p>Ongoing IPF: Syrdarya Water Supply Project, Bukhara &</p>

<p><i>Baseline:</i> 1.3 mln people <i>Target :</i> 2 mln people (700,000 additional people benefiting from improved water supply services)</p> <p>Indicator 2: Increased access to sanitation services in urban and rural areas. <i>Baseline:</i> 0.55 mln people <i>Target:</i> 1.15 mln people (600,000 additional people benefiting from a connection to the public sewer network)</p>	<p>Milestone: Implementation of a utility improvement plan in at least two (2) of the utilities that are using Bank financing.</p> <p>Milestone: Improvement in the capacity of the utilities to recover its operation and maintenance costs as measured by the OCCR <i>Baseline:</i> 0 <i>Target:</i> plans in two utilities implemented</p>	<p>Samarkand Sewerage Project, Alat & Karakul Water Supply Project.</p> <p>Proposed IPF: Reconstruction of Sewerage Networks in Nukus and Takhiatash Project, Reconstruction of Water Treatment Facilities in Pitnak and Improving Water Supply in 6 Khorezm regions Project, Improving Water Supply in Namangan town Project, Improving Water Supply in Syrdarya, Gulistan and Sayhun districts of Syrdarya region, Reconstruction of Water Supply and Sanitation Systems in Kattakurgan town of Samarkand region, Improving Water Supply in Djizzakh region Project, Construction of Khanabad-Andijan Water Main Project.</p> <p>Proposed ASA: WSS Sector Recommendation Dissemination, WSS Sector Reforms Diagnostics and Support Plan, WASH Poverty Diagnostics, Fiduciary Review of WSS Sector. Knowledge Sharing and Capacity Strengthening for Utility Managers.</p>
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CPF Objective 3.3: Improved energy efficiency

Intervention Logic: 12% of firms operating in Uzbekistan identify electricity as major constraint to doing business, and average losses due to electricity outages are reported to represent 7% of annual sales. WBG activities would focus on upgrading transmissions and distribution networks, district heating modernization, reduction of system losses, increased energy efficiency and improved power and gas metering.

CPF Objective Indicators	Supplementary Progress	WBG Program
<p>Indicator 1: Reduction of electricity technical losses <i>Baseline:</i> 25% <i>Target:</i> 20%</p> <p>Indicator 2: Energy saving resulting from energy efficiency investments <i>Baseline:</i> 0 MWh <i>Target:</i> 550,000 MWh</p>	<p>Milestone: Upgrade of the electric power and heating transmission and distribution systems in Tashkent, Samarkand, and other oblasts of the country</p> <p>Milestone: Installation of the wind/solar energy systems</p> <p>Milestone: Increased awareness through knowledge exchange and technical workshops on private sector participation in the energy sector</p> <p>Milestone : Generation Capacity of Renewable Energy constructed <i>Baseline:</i> 1350 MW <i>Target:</i> 1550 MW</p>	<p>Ongoing IPF: Energy Efficiency for Industrial Enterprises, Talimarjan Transmission Project, Advanced Electricity Metering Project.</p> <p>Ongoing ASA: Scaling up Energy Efficiency in Buildings, Planning Study for Power Sector.</p> <p>Proposed IPF: Transmission Upgrade Project – Phases 1-3, Electricity Distribution Rehabilitation Project – Phases 1-4, UzEEF project – Phases 2-3, District Heating Project, Renewable Energy (wind/solar) Project, Gas Metering Project –Phases 1-5, Modernization of Syrdarya Power Station Project.</p>

		<p>Ongoing IFC AS: Europe and Central Asia Sustainable Energy Finance Program (Energy Efficiency financing), Europe and Central Asia Resource Efficiency Program (Resource Efficient Technologies).</p> <p>Proposed IFC AS: Transaction Advisory on PSP in renewable power generation.</p>
<p>CPF Objective 3.4: Increased reliability and reduced cost of transport and improved efficiency of infrastructure service delivery</p>		
<p>Intervention Logic: Investing on regional roads and railways has great potential to alleviating poverty, boosting macro and micro economic activity, and reducing income inequality in Uzbekistan. Better connectivity would enhance productivity, reduce transport time and costs and enhance access to markets. This will eventually reduce prices for consumers, and increase employment and household incomes.</p> <p>Despite the efforts of regional integration, competitiveness continues to be constrained by infrastructure deficits and slow decision making, difficulty in securing and accessing serviced industrial/productive land, and information failures that prevent the private sector from coordinating investment activity. Supporting cities, with a focus on fast growing medium-sized to become centers of growth would further increase market size and connectivity, making it profitable for the private sector to invest. Private-sector investments, in turn, would lead to more jobs, higher wages and economies of scale. Through the proposed investments, WBG will support integrated and efficient delivery of local services and infrastructures, affordable housing, management of solid waste, replacement/upgrading of aging infrastructure and creation of livable urban environment.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Improved reliability of rail services (percentage of delays) <i>Baseline:</i> 95% (2015) <i>Target:</i> 5% (2019)</p> <p>Indicator 2: Reduction in road user costs on regional roads (vehicle operating costs for cars USD/km) <i>Baseline:</i> 0.27 (2015) <i>Target:</i> 0.21 (2020)</p> <p>Indicator 3: Asset management system developed and used in targeted cities <i>Baseline:</i> No <i>Target:</i> Yes</p>	<p>Milestone: Installation of signaling system and electrification of the Proposed railway line between Pap and Angren.</p> <p>Milestone: Rehabilitation of 370 km regional roads in Tashkent oblast and Fergana valley.</p>	<p>Ongoing IPF: Pap-Angren Railway Project, Regional Roads Development Project, Modernization of Property Registration and Cadastre Project.</p> <p>Proposed IPF: Navoi-Misken Kanimech Railway Project, Regional Roads Development Project – Phase 2-3, Medium-Sized Cities Integrated Urban and Territorial Development Project.</p> <p>Ongoing TA: Uzbekistan: Bukhara LED Through Community Based Tourism (JSDF Grant), Disaster Risk Management TA, Towards Energy Efficient Resilient Cities in Uzbekistan.</p> <p>Proposed ESW: Integrated Municipal Solid Waste Management Sector Study, Review of urban sector and regional development in support of local economy, Greening the urban agenda in Uzbekistan.</p>

Annex B: COMPLETION AND LEARNING REVIEW

CPS Board Discussion:	December 6, 2011
CPS Progress Report (Board Presentation)	June 10, 2014
Period Covered by CPS Completion Report:	November 2011 – June 2015

REPUBLIC OF UZBEKISTAN COUNTRY PARTNERSHIP STRATEGY FY12–15 COMPLETION AND LEARNING REVIEW

INTRODUCTION

1. This Country Partnership Strategy Completion and Learning Review (CLR) assesses the experience of implementing the FY12–FY15 World Bank Group (WBG) Country Partnership Strategy (CPS) for the Republic of Uzbekistan. The document provides a self-assessment of: (i) the extent to which the CPS was successful in achieving its stated objectives; (ii) the WBG performance in terms of the design and implementation of the program; (iii) the CPS contributions to the Corporate Twin Goals of eliminating poverty and boosting shared prosperity of the bottom forty percent of the population; and (iv) lessons learned from the implementation of the CPS program that should be considered during the preparation of the new Country Partnership Framework (CPF) FY16-FY20. In addition to discussions with the country team and counterparts, this review is based on reference documents such as the CPS, the CPS Progress Report, project appraisal documents, implementation status reports, ICRs, supervision reports, and reports related to Economic and analytical work. During the CPS period the World Bank delivered 12 operations in the amount of US\$1,467.59 million, of which US\$862.5 million was IDA and US\$542.5 million IBRD. IFC invested US\$9.1 million, of which US\$8 million in Finance and Insurance, and US\$1.1 million in Agriculture.

SUMMARY OF FINDINGS AND RATINGS

2. The objective of the FY12-15 CPS was to support the Government’s medium-term strategy to continue the gradual transition to a more market-oriented economy, to ensure equitable distribution of growth between regions, and to improve the quality of infrastructure and social services. The CPS focused Bank Group support around four strategic themes: (i) *Improving energy infrastructure and water resources management*; (ii) *Enhance competitiveness of the economy*; (iii) *Diversification*; and (iv) *Improving access to social services*; as well as *Governance* as a cross-sectoral areas of engagement. In these five areas of engagement, the CPS contributed to specific development outcomes that are summarized in Annex 1 (Results Matrix). Annex 2 provides a breakdown of planned and actual operations and knowledge and advisory activities for the FY12-15 CPS.

3. One of the key aspects of the FY12-15 CPS is its two-tier approach. In the first tier, where government and WBG views broadly converged, support for increasing the efficiency of infrastructure and for improving access to social services was provided by combining lending and advisory services. In the second tier, where government and WBG perspectives differed, support for the government’s competitiveness and economic diversification agenda was focused on policy dialogue and technical assistance. In both tiers, the WBG program delivered results by scaling up

lending programs for the first tier and deepening policy discussions in the second tier. In certain areas where mutual policy understanding deepened, such as horticulture and transport, lending was expanded, following the government's adoption of the key recommendations coming from the WBG's analytical and advisory work. In the areas where policy convergence was not observed, such as in financial sector, a proposed World Bank lending program was streamlined, while IFC's investment and advisory services in this sector focused on private banks and developing financial infrastructure.

4. A key event during the CPS period was the request for inspection submitted to the Inspection Panel in September 2013 alleging that one of the World Bank-financed agriculture projects was resulting in harm to people forced to harvest cotton. While the Inspection Panel ultimately decided not to undertake an inspection, this resulted in a significant shift in the WBG's approach and dialogue in the country, with measures introduced to mitigate the risk of any implication in child or forced labor and an expanded emphasis on agricultural sector modernization.

5. The CPS Overall Development Outcome is rated Moderately Satisfactory. This rating is based on an aggregate and comprehensive assessment of the achievements in each of the four strategic themes and the cross cutting area of engagement, as well as the individual outcomes that formed the basis of the CPS Results Matrix (Annex 1).

6. Progress against the development outcomes under the Strategic Theme 1 Improving Energy Infrastructure and Water Resource Management is rated Satisfactory. All four key outcomes were fully achieved. The WBG has accomplished successful interventions in energy efficiency, irrigation and drainage. Besides achieving most of its objectives, the program has been a cornerstone of an increased dialogue with all levels of the Government which, in turn, resulted in requests for further financing in these sectors.

7. While good progress was made on the infrastructure elements of the program, the Strategic Theme 2 Enhance Competitiveness of the Economy is rated Moderately Unsatisfactory. Of the two main outcomes under this strategic theme, both were partially achieved. The CPS program has been able to contribute to a certain extent to the increase of the competitiveness of the Uzbek economy, as measured through Doing Business indicators. The WBG has also well exceeded its target of providing access to finance to MSMEs. However, the lack of publicly available data, the prevalent governance issues, and delays in introducing important reforms (e.g., financial infrastructure) have hindered the opportunities for the WBG to advance further the CPS competitiveness agenda.

8. Progress against the development outcomes under the Strategic Theme 3 Diversification is rated Moderately Satisfactory. Both outcomes under this strategic theme were overly achieved. Despite significant increase in diversified agriculture output, further progress is hampered due to lack of changes in the cotton sector which uses most of the natural resources and is still heavily controlled by the state. The WBG is actively supporting the Government's agenda of diversification of the agriculture sector away from cotton. The initial results, stemming from the credit lines for farmers and accompanying training, as well as IFC's advisory services to the

agriculture sector, are very positive, but more substantial impacts are expected from the implementation of recently approved WBG projects in this sector.

9. The Strategic Theme 4 Improving Access to Social Services is rated Moderately Satisfactory. Of the 5 outcomes under this strategic theme, 3 were achieved and 2 partially achieved. Operations in public health and education have provided modest, yet lasting results, as measured at facility/school and rayon level. The central and local Government units have shown strong commitment, which resulted in timely implementation of project activities. However, the lack of willingness of the authorities to participate at international assessments in education and the lack of patient satisfaction surveys impede a coherent assessment of long-term outcomes. WBG operations related to access to water services, although marred with initial problems in management of activities, have picked up and manifested visible results.

10. Progress against the development outcomes under the Cross Thematic Area Governance is rated Moderately Unsatisfactory. Both key outcomes under this Cross Thematic areas have been partially achieved and showing good progress. Throughout the CPS period, the Government has shown increasing interest to work with WBG on governance related issues and has asked the WBG to help in areas of public procurement, internal control and audit, and tax regime. The results in this area have been modest for the World Bank – lack of transparency and reliable data remains a serious issue. State-non-state relations did not enable noticeable enhancement to citizen engagement. However, the IFC advisory project focused on building the government’s tax audit capacity has significantly improved the capacity of the State Tax Committee. Consequently, IFC is rated Moderately Satisfactory. Since 2013, IFC has provided advisory services to the State Tax Committee of Uzbekistan (the STC) on development and implementation of Risk Based Audit System (RBA) to select risky taxpayers for inspection.

11. The CPS Results Framework was assessed as too cumbersome, and was reduced during the time of the CPS Progress Reported, adding baseline and target indicators, and focusing it on realistic and achievable outcomes. In this Completion and Learning Review, out of 16 outcomes ten are rated as **Achieved**, a further six as **Partially Achieved**.

DEVELOPMENT OUTCOME REVIEW

Strategic Theme 1: Improving Energy Infrastructure and Water Resource Management

12. CPS results are most evident in activities related to infrastructure efficiency. Within this strategic theme, the World Bank invested in an energy efficiency facility for industrial enterprises, which resulted in more than 20 percent energy savings in Uzbekistan’s largest enterprises. A Sourcebook for Strategic Development of Industrial Energy Efficiency and an Energy/Power Sector Issues Note have been developed to help the Government prioritize investments and to systematically and effectively target energy savings in the manufacturing sector. In the power transmission sector, the Talimarjan Transmission project halved the power outages in South West Uzbekistan. Four World Bank investments¹⁶ in the water sector resulted in increased efficiency of management of irrigation and drainage systems in Ferghana Valley and

¹⁶ Drainage, Irrigation and Wetlands Improvement project, Second Phase of the Rural Enterprise Support project and its Additional Financing, and Ferghana Valley Water Resources Management project

South Karakalpakstan. Based on the success of these projects, the Government and the Bank are continuing the collaboration in the irrigation sector through South Karakalpakstan Water Resources Management Improvement project (approved June 2014).

13. Collaboration with the Government in the transport and energy sectors have deepened. The Transport Sector Review provided a comprehensive analysis of urban transport in Tashkent city road transport and railways and offered examples of international experience in how to address sector challenges through policy changes and investment in the short to longer term. It also proposed activities for which the Bank can provide support. As a result, the Government requested IBRD and IDA funding to support two projects in the transport sector: Pap-Angren Railways Project and Regional Roads Development Project.

Strategic Theme 2: Enhance Competitiveness of the Economy

14. The competitiveness agenda (second tier of the CPS) focused mainly on advisory assistance. Through technical assistance, the World Bank Group advised the government on how to improve the regulatory framework for the private sector, aiming to reduce the cost of doing business, and hence foster entrepreneurship. Improvements supported by the joint World Bank/IFC advisory work¹⁷ included simplification of permit procedures for businesses that contributed to significant improvements in the Doing Business metrics. Complementing these efforts, IFC has been providing advisory to the State Tax Committee of Uzbekistan on the development and implementation of Risk Based Audit System to risky taxpayers. The system module for taxpayers in simplified tax regime is already implemented, while the one for other taxpayers is in development. MIGA complemented these by helping Uzbekistan attract and retain foreign direct investment. In 2012, MIGA issued a US\$119.5 million guarantee for the Khauzak-Shady Block and Kandym Field Group project.

15. The interventions in a financial sector with low financial intermediation aimed to improve access to finance. IFC is helping to expand secure access to finance for individual consumers and MSMEs by working with financial intermediaries and improving the regulatory environment. IFC supported well-managed local banks through equity investments, SME credit lines, as well as trade finance. These products supported the growth of the IFC clients' SME loan portfolio from about US\$120 million to US\$285 million for nearly 14,600 SMEs. In addition, IFC advisory services supported the certification program for risk management professionals in the banking sector and financial literacy program for SMEs jointly with the Chamber of Commerce of Uzbekistan. To complement these efforts, IFC also provided advisory services to help its client banks develop customized financing products for farmers. The WBG supported legislative changes in the area of credit information-sharing and secured transactions and improvement of regulatory and supervisory framework of financial institutions. This work led to the establishment of a private credit bureau in 2012, and a modern internet-based collateral registry in 2014.

16. IFC continues to actively explore with international sponsors larger investments in the petrochemicals, mining, and energy sectors. They were identified during the CPS

¹⁷ World Bank and IFC teams worked jointly on five AAA products: Improving the Construction Permitting System (FY12), Improving Access to Credit (FY12), Property Registration (FY12), Business Environment Assessment (FY13), Transforming Tourism Opportunities (FY13) and Enhancing SME Competitiveness (FY13).

implementation. Given that the sector is dominated by government enterprises, these sponsors are engaged in discussions with the Government and adjusting accordingly their feasibility / commercial plans. IFC could potentially support them with several financing options, including equity and debt finance, as well as mobilization from private banks and MIGA guarantees. Were these investments materialized, they would significantly increase IFC portfolio in the country in the upcoming CPF.

Strategic Theme 3: Diversification

17. The government and the World Bank Group have focused the activities under this strategic theme on diversification of agricultural production away from the traditional cotton production towards higher value-added crops. The World Bank financed 2nd Phase of the Rural Enterprise Support Project and its Additional Financing funded the training of 62,000 farmers on topics ranging from orchard and vineyard production, processing and marketing products to preparing business plans, agricultural law and taxation, as well as issues related to prohibition of child and forced labor in line with the national laws and regulations. As a result of these activities and the expanded dialogue around labor relations in the cotton sector, the Government has requested assistance from the Bank to develop a comprehensive strategy for agricultural diversification away from cotton, which will be financed through the South Karakalpakstan Water Resources Management Improvement and Horticulture Development projects (both approved in June 2014). Integral to this technical assistance is to share international experience in implementing cotton sector reforms to facilitate the agriculture diversification process in the country. The Sustainable Agriculture and Climate Change Mitigation Project (GEF) will support promotion of selected renewable energy and energy efficiency technologies of relevance to agri-businesses and farms; and strengthen capacity for improving degraded irrigated land and water conservation in the project area.

18. During the CPS period, IFC agri-finance advisory services provided assistance to the financial institutions on developing commercial agri-lending and agri-leasing operations. Focused on one investee bank, it delivered training on the specifics of agri-lending and assisted loan officers in assessing 30 agri-lending deals through on-the-job training. It also conducted a diagnostic of the bank's current leasing and long-term equipment lending operations with the aim of incorporating the specifics of agri equipment in the current processes. Ultimately, the World Bank's agri-lending portfolio shot up from \$400,000 in September 2013 to US\$15 million in December 2014. IFC also delivered training to the Uzbekistan Lessors' Association on agri-leasing risk mitigation tactics in agri-leasing.

Strategic Theme 4: Improving Access to Social Services

19. The improving access to social services strategic theme was underpinned by significant analytical and advisory work. Uzbekistan has benefited from considerable analytical support and technical assistance in the areas of early childhood and tertiary public education, dialogue on poverty and social protection, and public education financing. Based on the extensive knowledge work, the Basic Education Project – Phase 2 contributed to the improvement of the quality of teaching through better education financing and school management, and introduction of a more student-centered approach to teaching. The project also provided learning materials for

22.5 % of the schools in the country. The Health 2 and 3 investment projects resulted in improvements in the quality of primary and secondary public health care by providing modern equipment for 188 rural health facilities (SVPs), 157 rayon medical unions¹⁸ and training of more than 8,000 doctors and 20,000 nurses. The remaining challenges include the need to help the Government improve the management of health financing, participate in international student assessments (PISA) and improve M&E systems in both sectors. The unavailability of reliable data impedes any comprehensive analysis in these two sectors which, in turn, prevents the responsible institutions to improve education and health outcomes in the long run.

20. To respond to the need for access to water and sanitation services, in addition to the two ongoing investment operations, the Bank has approved another two projects¹⁹, which have contributed to secure the reliable access to improved sanitation services for 98 percent of the population in Bukhara and Samarkand cities. They have also improved water supply services in Syrdarya region and Alat and Karakul districts, as well as the capacity of the local governments and public utilities through training on utility management, operations, maintenance and communication. In addition, the Poverty and Social Impact Assessment of drinking water and sanitation conditions provided an overview of consumer perspectives of drinking water and sanitation service conditions in the country and suggested measures to make WSS services in Uzbekistan more effective for the ‘bottom 40 percent’.

Cross Thematic Area: Governance
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21. Activities related to improved governance, increased transparency and access to information have gained traction, but at a smaller scale and at a slower pace than expected. Prior to the current CPS period, the World Bank engagements in these areas were almost non-existent. In 2012, the Bank undertook a Public Expenditure and Financial Accountability (PEFA) Assessment to provide the Government with an integrated assessment of the public finance management system, as well as suggestions on reform planning and implementation. The Bank also initiated collaboration with the Organization for Economic Cooperation and Development (OECD), which supports Uzbekistan’s implementation of the Istanbul Declaration Anti-Corruption Reforms in the Central Asia. Following these engagements, government institutions are now actively collaborating with the Bank teams on developing a Public Procurement Strategy, which will lead to development of a new Public Procurement Law. However, the governance agenda in Uzbekistan faces considerable challenges, as the country is continuously ranked in the bottom 10 percent in the Worldwide Governance Indicators list. In addition, the engagement of citizens is still limited, and access to macroeconomic and microeconomic data, including household surveys, is poor; this adversely affects monitoring as well as the scope of technical assistance and analytical work.

Ongoing under the Health System Improvement Project (Health 3) and its Additional Financing.

¹⁹ Alat & Karakul Water Supply Project and Additional Financing for the Bukhara & Samarkand Sewerage Project.

ALIGNMENT WITH REGIONAL STRATEGY IN CENTRAL ASIA

22. The World Bank Group strategy has been consistent with regional strategies and programs for Central Asia that support regional connectivity. The World Bank continues to contribute to the sound management of water resources and advancing the regional energy trade through the Central Asia Energy-Water Development Program (CAEWDP) and Central Asia Regional Economic Cooperation, which aim to improve diagnostic and analytical tools to help the countries in the region manage their water and energy resources, promote dialogue among riparian countries for improved management of shared river basins, strengthen regional energy trade, and stimulate investments, in coordination with other development partners.

23. IFC complemented these efforts through its regional Renewable Energy Advisory Project, which is designed to help the governments across Central Asia and the Southern Caucasus improve the regulatory framework for renewables and support renewable project developers.

24. The Government has identified climate resilience as a strategic issue for future economic growth, for efficient use of water, land, and energy resources, and for potential regional collaboration. It has actively participated in the First and the Second Central Asia Climate Change Forum convened by the Bank in 2013 and 2014, and is part of the regional program for climate resilience. Through the Central Asia Hydrometeorology Modernization Project, the Bank is improving the accuracy and timeliness of delivery of weather, climate, and hydrological services in the region.

SOCIAL SUSTAINABILITY AND CITIZEN ENGAGEMENT

25. The second half of the CPS implementation has seen a strengthened dialogue on social sustainability issues. Social assessments have been systematically carried out for all proposed lending. Two areas of particular focus are gender and child and forced labor. Gender perspectives and issues have been systematically included in project preparation since the start of the CPS, with specific social studies assessing (where applicable) gender issues in a particular sector and potential gender activities within the project. Where possible, gender-disaggregated indicators are included in the Project Results Framework.

26. The Bank has entered into a partnership with the International Labor Organization, working with Uzbek authorities, to address issues of governance in the cotton sector, with an emphasis on eliminating mitigating the risk of child and forced labor and promoting decent work.

27. Since Soviet times, citizens have been mobilized to carry out work considered of community or national importance. In particular, high peak labor demand during the cotton harvest period, in combination with the state production quota system, has led to state-sponsored mobilization of organized labor, with staff from schools, universities, hospitals, and other government organization joining the cotton harvesting. The International community and Civil Society Organizations (CSOs) have been continuously raising concerns about this practice, including the 2013 complaint received by the Inspection Panel on Bank-financed agriculture project. The World Bank has been undertaking a holistic approach on the issue, through project-level safeguard measures, policy dialogue with the authorities, and collaboration with other

international organizations, CSOs and development partners. Recognizing the importance and complexity of the forced and child labor issue in Uzbekistan, third party monitoring and a feedback mechanism were incorporated in selected Bank-supported agriculture, irrigation and education projects. This work was carried out in partnership with the International Labor Organization, and with political and financial support from key bi-lateral donors. In addition, arrangements have also been made for some project land to be exempted from the state cotton production quota, and additional efforts are made to enhance diversification and mechanize the cotton harvest that were complemented by trainings and outreach campaigns. These comprehensive efforts aim to address the issue of child and forced labor in cotton harvesting.

28. Despite this development, citizen engagement in Uzbekistan remains a challenge.

There are limited channels for genuine participation, and limited trust on the part of citizens in their ability to affect change. Attempts to reform local governance are mostly met with resistance, and upward reporting stifles local engagement and voice. Independent groups have great difficulty in organizing in Uzbekistan, and the non-governmental sector is itself struggling with independence, representativeness, mandate and accountability. Nevertheless, those NGOs focused on development have collectively played an important role in exacting responsiveness to the norms of rule by law. The challenges include the limited capacity, lack of willingness to fund citizen engagement, and only limited operationalization of monitoring or feedback that engages beneficiaries in World Bank projects. Opportunities include government commitment to open data and e-government, including hotlines in some sectors.

EVALUATION OF THE PERFORMANCE OF THE WORLD BANK GROUP

29. The overall rating of WBG performance is rated Good. The CPS FY12-15 put forward initially a somewhat over ambitious agenda, with a complex and cumbersome Results Matrix. The CPS Progress Report was used effectively to adjust the outcomes both in numbers and design in response to changing circumstances. The WBG successfully contributed to the pursuit of the more focused set of CPS objectives, most of which were achieved or mostly achieved. The two-tier approach has proven successful and remained relevant throughout the CPS period. The WBG has adapted to changing circumstances and priorities, responding to challenges ranging from the evolving regional dialogue, to client capacity limitations, and alignment with country priorities. In particular collaboration across the WBG in response to a challenging business environment and issues such as the child and forced labor in the cotton sector has been exemplary. The World Bank Group program was underpinned with considerable knowledge work, which enabled solid utilization of IDA and IBRD resources. The program of activities provides a sound platform for the next strategy.

30. The CPS quality at entry is rated Good. The CPS was designed in partnership with the Government of Uzbekistan.

- The CPS design was characterized by continuity, flexibility, complementarity and synergy within the lending program, between its lending and non-lending elements, and between World Bank, IFC and MIGA. The WBG coordinated planned interventions with development partners. The CPS continued the established two-tier approach, which introduced the needed flexibility

given the differences of views with the Government, but also the rapidity of evolving dialogue related to the development challenges of the country.

- The World Bank invested in a strong portfolio of sector-wide Analytic and Advisory Activities (AAA) that increased knowledge and underpinned current and future lending activities. The solid AAA program and delivery of key sector strategy notes have contributed to the expansion of the lending pipeline, which now includes new projects in horticulture, transport, and education. Number of Social studies influenced WBG dialogue with the client; particularly, the Social Impact Assessment on mechanization provided an insight into social aspects of mechanization and informed the approach to the agriculture sector modernization, as well as operation work. In addition, these analytical works serve as background input to the Government’s comprehensive economic visioning exercise, “Uzbekistan Vision 2030.” A diversified Technical Assistance (TA) portfolio in areas such as procurement, Information and Communication Technology (ICT) and operational capacity development, have strengthened the World Bank’s positioning in Uzbekistan as a knowledge- and global expertise-sharing institution.

Table 2: Linking Analytical and Advisory work with lending operations

Global Practice	Analytical and Advisory Product	Follow-on Pilot/Roll-out Project
Transport	FY13 Uzbekistan at a Crossroads: Toward Sustainability in the Transport Sector FY13 Trade Logistics and Supply Chain Performance	FY15 Regional Road Development Project FY15 Pap-Angren Railways Project
Energy	FY13 Energy/Power Sector Issue Notes FY13 Framework Paper for Energy Efficiency for Industrial Enterprises	FY13 Additional Financing for Industrial Energy Efficiency FY16 District Heating Project FY17 Electricity Distribution Modernization Project
Agriculture	FY13 Strengthening the Horticulture Value Chain	FY14 Horticulture Development Project
Water Resource Management	FY15 Water Resource Management Strategy Note	FY16 Fergana Valley Water Resource Management II
Education	FY13 Improving Early Childhood Care and Education Report FY14 Modernizing Higher Education	FY14 Improving Pre-Primary and General Secondary Education Project FY16 Tertiary Education Project
Fiduciary	FY13 Public Expenditure and Financial Accountability Assessment	FY16 National Procurement Strategy Development TA FY16 Procurement Law Development
Social	FY 15 Social Impact Assessment of Cotton Harvest Mechanization	informed the approach to the agriculture sector modernization
Social	FY15 Exploratory assessment of factors that influence quality of local irrigation governance in Uzbekistan	informed the approach to the agriculture sector modernization

- “Uzbekistan Vision 2030” – an analytical and technical support, by the WBG, United Nations Development Program (UNDP) and local think tanks, focused on Uzbekistan’s ambitious goal of achieving upper middle-income status by the middle of the century. This work was focused on transitioning Uzbekistan from a factor-driven economy to an efficiency-driven economy over several decades in a way that yields a better life for the people of Uzbekistan.

- **The World Bank used investment projects to pilot interventions to build momentum in areas where consensus or capacity was insufficient.** Through the work on RESP2 and RESP2 AF, the World Bank is helping the Government of Uzbekistan address the contentious issue of use of child and forced labor in the cotton sector.

31. The assessment of risks that could have affected the WBG program was realistic, such as the tensions between Uzbekistan and its neighbors over regional issues—especially trans-boundary energy and water resources, vulnerability of the Uzbek economy to external shocks, as well as insufficient political commitment required to advance further economic reforms, improve the investment climate, and greater disclosure of reliable economic, financial, and social data. The World Bank team appropriately addressed most of these risks through basin-wide consultations and transparent sharing of information and maintaining a continuous dialogue with the governments and key international agencies, as well as by continuous monitoring the macroeconomic situation in the country and the effects of the looming crisis in Russia. While the government has shown high commitment to continuing and widening the collaboration with the World Bank Group, the lack of reliable data continues to be an impediment to more comprehensive advance of reforms and assessment of its effects on poverty.

32. The CPS results framework is rated Fair. While it captured the gist of the WBG’s program, the results framework in the CPS FY12-15 contained too many indicators and outcomes, not all observable or relevant because of chronic data unavailability. Consequently, the Results Framework was streamlined and revamped at the time of the CPS Progress Report.

33. Quality of implementation is rated Good. Implementation accommodated changing circumstances and evolving dialogue with the Government. Joint portfolio reviews were used for monitoring operations and identifying implementation bottlenecks. The Bank team provided strong and consistent implementation support, adjusting to evolving circumstances and client needs.

34. Strong involvement of the local team ensured timely exchange of information and improved WBG’s responsiveness to client requests. All projects were assigned a contact person in the local office, and some projects had field based Task Team Leaders. However, given the growing portfolio in the areas of agriculture and infrastructure, as well as increased attention to social development issues, the country team should benefit from additional work force.

35. The CPS reflected an appropriate collaboration and division of labor among the World Bank, IFC, and MIGA. For example, in the financial sector, investment climate, and agriculture-agribusiness.

36. Coordination with development partners was continuous and effective. Uzbekistan has a considerable number of active development partners, ranging from European Union, USAID and UN, to bilateral and multilateral donors from Asia, such as Switzerland, Korea, Japan and the Asian Development Bank. The World Bank team actively participated in coordination of development assistance and dialogue, especially in the area of water/energy management and agriculture reforms.

37. Uzbekistan had fully utilized IDA-16 resources and front-loaded its FY15 allocation from IDA-17. The delivery of IDA-financed projects was prioritized in the early years of the CPS. During FY12–14, five IDA-financed projects worth US\$557.5 million were delivered, out of the total IDA-16 allocation of some US\$555 million. Uzbekistan’s IDA-17 allocation for FY15 stands at SDR 161.0 million was spent with 30% front-loading with the delivery of two large IDA operations in Q4-FY15. Since its per capita gross national income exceeded the IDA operational cutoff for the first time only in 2011, Uzbekistan retained its access to IDA resources for FY12–15 CPS period, with a timetable for graduation to be set in future IDA discussions. IBRD allocation was under-utilized with US\$542.5 million worth operations being delivered in FY12-15, out of US\$710 million IBRD resources planned for this CPS. Actual lending programs are presented in the Annex 2. Total commitments by the end of CPS period amount to US\$1,971.49 million (US\$1,257 million/IDA, US\$653.3 million/IBRD, US\$49.9 million/GPE, US\$12.7 million/GEF). The portfolio is relatively young, with half of the projects being less than three years old. Most of the active projects are on track to achieve their development objectives. The Trust Fund portfolio expanded from US\$1million/year to around US\$63 million committed during the CPS period. IFC has committed investments of about US\$32 million (including trade finance), mostly in the financial sector and agribusiness.

38. Processing of project preparation through government institutions causes effectiveness delays, the main reason being that government institutions start with project preparation only after it has been approved by the World Bank Board of Executive Directors. The government and the WBG have addressed this problem by signing a framework *Memorandum of Understanding* (MOU) in January 2014. The MOU is aimed at expediting the internal preparation procedures and advance procurement processes. This should decrease the lag between Board approval and project effectiveness from the average of 12 months in FY13 to a period closer to the ECA average of three months. The MOU also allows the government to launch major procurement at the project preparation stage, thereby significantly shortening the time between project effectiveness and first disbursements. However, in practice, the advance procurement was initiated only in the Talimarjan Transmission and Pap-Angren Railway projects.

39. The efficiency of project implementation is impeded by cumbersome local procedures that require clearance from an Inter-Ministerial Bidding Commission (IMBC) at each stage of procurement (consisting of 11 ministers headed by a Deputy Prime Minister) for procurements valued more than \$1 million (increased to \$5 million in September 2015) and price verification and registration of contracts awarded to international bidders at the Ministry for Foreign Economic Relations, Investment and Trade (MFERIT).

40. The procurement process from bid opening to start of contract implementation takes anywhere between 8 to 14 months against international good practice of 4 to 6 months. The delays

are mainly due to inefficient functionality of the IMBC and MEFRIT. The procurement process leads to lack of accountability for procurement and project implementation by line ministries and PIUs as IMBC clears at each stage. In spite of the local regulations requiring that MEFRIT registration shall be completed within 10 working days, the registration process is protracted (up to 3-8 months) and involve price verification practice which is contradictory to the WB Procurement Guidelines. For the last three years the Bank has been monitoring procurement delays and, in particular, time lags between no-objection for contract award and start of contract implementation. Thus, a number of notices for potential mis-procurement were issued and misprocurement of two large contracts were declared.

ALIGNMENT WITH THE CORPORATE GOALS OF THE WORLD BANK GROUP

41. The CPS and its implementation were aligned with corporate goals and national strategy documents. The objectives of the country were reflected in the document titled “Welfare Improvement Strategy of the Republic of Uzbekistan for 2013-15” (earlier version - 2008-10), where achievement of sustainable and quality growth of the population’s welfare was set as the main goal of the national development strategy. Though the poor were not identified as the target group, the government nevertheless closely monitors poverty.

42. The official poverty rate continued to decline throughout the CPS period, reaching 14 percent of population by 2014. Poverty reduction occurred in tandem with the robust economic growth. It was also accompanied with a decline in inequality according to official data. During 2001-2014, the (official) Gini index declined from 39 to 29 percent. Furthermore, aggregate data provided by the government indicates that the bottom 40 percent saw a disproportionate increase in expenditures per capita during 2008-2014.

43. However, due to lack of access to the official household survey dataset, the World Bank cannot independently verify Uzbekistan’s progress on the twin goals. The government collects household data to measure poverty levels. It is not clear whether the poverty incidence being reported is WBG not have access to record level data, it is not in a position to independently verify the methodology and robustness of the welfare measurements. Consequently, there are no WBG estimates of Uzbekistan’s level of extreme poverty using \$1.90 per day.

44. The CPS program was designed to support government efforts to maintain high economic growth via interventions to improve energy and water sectors’ efficiency, advisory services in strengthening business environment and access to social services. The resulting impacts of the CPS interventions could be linked to growth of the private sector (e.g., SME sector development and access to finance), better living conditions (e.g., reduction in power outages in remote regions, better access to water supply and sanitation services) and human capital endowments (e.g., better access to schools, tackling child labor issues and access to health care facilities) across all groups of population. These efforts could have a positive impact not only on monetary welfare, but also on non-monetary welfare of households. Overall, the CPS activities contributed to sustaining the economic growth across various sectors- impacting opportunities in the labor market and income of households, which in turn could potentially have contributed to poverty reduction.

45. While the long-run progress based on official data appears to have been positive, poverty reduction has decelerated somewhat in recent years despite continued GDP growth. This could be a result of several factors such as the type of growth or where economic progress is occurring. It could also indicate that recent episodes of growth may be bypassing some isolated yet vulnerable groups of the population or parts of the country. In order to understand the change in the trend, the Bank would need access to household data to assess the impact of growth on various groups of population.

KEY LESSONS LEARNED

46. The WBG is the development partner of choice for the government in carrying out investments in the agriculture, transport and energy sectors, as well as the development of the private sector, as shown by the 2013 World Bank Client Survey and analysis of the CPS FY12-15. The WBG must build on this experience while continuing to engage with the Government focusing on the areas where it can have the greatest leverage pursuing its goals of reducing poverty and boosting shared prosperity. The following key lessons should be taken into consideration in the design of the upcoming CPF.

- Close alignment with government objectives, as well as continued intensive dialogue was important for the success of the WBG program. It enabled to maximize its leverage, especially in infrastructure sectors. High-level policy dialogue was crucial for achieving a number of outcomes, particularly in the areas of agriculture and labor reform. The WBG should continue using its convening power to help the government coordinate development assistance and therefore, leverage the use of IBRD and IDA funds. Stronger collaboration among the Bank, IFC, and MIGA is warranted in order to maximize the development impact of the WBG given the limited financial resources and leverage.
- The WBG needs more information and statistical data in order to be able to maintain its strategic focus on inclusion and sharing the fruits of economic growth. Despite a number of encouraging results, it is not known to what extent economic growth has resulted in improvements in living conditions and how any improvements were distributed. Reliable data related to poverty levels and the dynamics of poverty is largely unavailable.
- Misalignment of government and Bank project preparation cycles affected timely project launch and delayed implementation, thereby narrowing the space for effective IDA/IBRD implementation.
- Taking a strong WBG position on child and forced labor in the cotton sector, emphasizing both the need for mitigation and modernization of the sector, in collaboration with other development partners, although quite challenging, has been effective in creating a significant change process that is achieving positive results.
- Detailed assessment of social risks, carried out following the Inspection Panel complaint, allowed the Bank to have more informed, nuanced and strategic approach to the issue of child and forced labor. This approach went beyond comprehensive risk mitigation strategy, to addressing systemic issues through long-term development approach. Partnership with standard setting

organization, such as ILO, as well as close coordination with other donors, enabled the Bank to use its leverage to facilitate the policy change process.

- The upcoming CPF should focus on fewer outcomes, and monitored by observable indicators. Though later effectively reduced in the CPS Progress Report, the initial excessive number of indicators of the original CPS made its Results Framework hard to use as practical management tool.
- Client surveys revealed limited knowledge of the World Bank program at local level. Commitments to engage citizens/beneficiaries in monitoring and feedback need to be operationalized, and efforts are need to ensure that planned citizen engagement elements are implemented. These engagements need to include women and youth.

CPS CLR ANNEX 1: RESULTS MATRIX

CPS Outcome	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to the outcome	Lessons and Suggestions for the new CPF
STRATEGIC THEME I. IMPROVING ENERGY INFRASTRUCTURE AND WATER RESOURCE MANAGEMENT			
<p>National Priorities: Energy efficiency; improved environmental management; private sector development; Improved water use.</p> <p>Issues and Obstacles: Energy: low quality of electricity supply; high-energy usage per unit of GDP productivity; high losses in supply chain; lack of private investment; double-landlocked nature of Uzbekistan affects its competitiveness; inefficient use of water resources for irrigation; inadequate meteorological, climate, and hydrological information for decision making.</p>			
<p>Improved energy sector reliability as seen through reduction of outages in South West Uzbekistan.</p> <p><i>Baseline:</i> 92 hours per year</p> <p><i>Target:</i> 48 hours per year, and Government adoption of strategic plan for the energy sector.</p>	<p>Achieved: Construction of 218 km of 500kV transmission line connecting Talimarjan Power Plant with Sogdiana substation and transmission line Guzar-Karakul was completed. Electricity outages reduced from 92 to 48 hrs. At the level of the strategic plan for energy sector, WBG provided significant advice through a number of analytical and sector works.</p> <p>IFC Investment: A Mandate Letter was submitted to Uzelectroset Company in October 2014. However, based on the worsening of the financial situation of the power sector of in Uzbekistan, IFC and the Government decided to put this project on hold (amounts of accounts receivables/accounts payables significantly increased and important investments were required).</p>	<p>Lending: Talimarjan Transmission Project 03/15/2011-12/31/2015 (S/S) Advanced Electricity Metering Project 03/27/2012 – 06/30/2017 (MU/MS).</p> <p>Non-Lending: Note Regional Power Market Assessment (UAP-EST) - FY12. Energy Efficiency Strategy for the Industrial Sector – FY13. Energy/Power Sector Issues - FY13. Energy Subsidies Study - FY13.</p> <p>IFC Investment: Financing the Uzelectroset Company.</p>	<p>Advanced procurement used under Talimarjan Transmission Project was exemplary for timely project launch. However, portfolio-wide delays in registration of contracts awarded to foreign bidders by MFERIT affected the project implementation and incurred additional costs for the client and the bidders. In the new CPF, as Energy is likely to be major trust area of the Government, at least Energy Projects should be exempted from price verification and registration by MFERIT on a pilot basis. Price verification is not in line with the Bank Procurement Guidelines. There should be permission to charge an appraisal fee in local currency for SOEs; Cooperation with WB Team is very useful for this type of projects.</p> <p>Close cooperation with the World Bank Group is essential for getting private sector involved in the infrastructure sector.</p>

<p>Improved energy efficiency of the largest industrial enterprises through introduction of energy efficiency measures.</p> <p><i>Baseline:</i> No change. <i>Target:</i> 20% energy savings.</p>	<p>Achieved: More than US\$50 million were provided to 30 industrial enterprises to implement 28 energy efficiency sub-projects that improve their overall performance and competitiveness. As a result, more than 126,000 MWh of electricity and 50 million m³ of natural gas is freed out annually and available for other consumers. Uzbekistan industrial enterprises achieved more than 20 percent energy savings.</p> <p>The IFC RE operations in Uzbekistan have yet to begin, due to constraints in terms of the small size of the potential deals.</p>	<p>Lending: Energy Efficiency for Industrial Enterprises Project 06/17/2010 – 01/31/2016 Additional Financing for UzEEF – 04/26/2013 – 01/31/2018 (S/S)</p> <p>Non-Lending: A Sourcebook for Strategic Development of Industrial Energy Efficiency - FY13. PSIA on District Heating – FY14.</p> <p>IFC Advisory: Europe and Central Asia Resource Efficiency Program (RE). IFC provides businesses with in-depth advisory support to help them identify and implement opportunities for better resource efficiency.</p>	
<p>Improved water resources management:</p> <ul style="list-style-type: none"> - Increased efficiency of water resources management as seen through increase of irrigated areas with adequate irrigation water supply. <p><i>Baseline:</i> 40,000 ha. <i>Target:</i> 74,000 ha.</p> <ul style="list-style-type: none"> - Decrease in the water salinity and reduction of highly saline lands by more than 100mg/l using a three-year average. 	<p>Achieved: Area of irrigated land with adequate water supply was increased to 74,000 ha. The irrigated area in South Karakalapakistan increased by nine percent and yields increased by 20 percent.</p> <p>Achieved: Water salinity has dropped using a three-year average comparing the period (2005-2007) and the period (2010-2012) by 130mg/l (0.13g/l). Ground water levels have dropped throughout the area and</p>	<p>Lending:</p> <ul style="list-style-type: none"> - Drainage, Irrigation and Wetlands Improvement Project – 06/19/2003 – 06/30/2013 (<i>closed</i>; <i>ICR ratings for Outcomes – MS, Risk to DO – M, Bank Performance – MU, Borrower Performance MU</i>) - Rural Enterprise Support Project –Phase 2 – 06/12/2008 – 12/31/2016 (MS/MS) - Additional Financing for RESP 2 - 09/11/2012 - 12/31/2016 (MS/MS) 	<p>Many attempts to implement modern irrigation technologies in Uzbekistan have failed or have not resulted in scalable implementation of new practices because these attempts have not fully realized the commercial incentive for change. Follow up support (e.g. in equipment maintenance, agronomy, irrigation and drainage) is critical to make the implementation of new irrigation practices sustainable. However, extension services are nascent in Uzbekistan.</p>

<p><i>Baseline:</i> period 2005-2007. <i>Target:</i> period 2010-2012.</p> <p>- Increased efficiency of management of irrigation water resources in project areas, as seen through establishment of Water Consumer Associations (WCA) in the project areas.</p> <p><i>Baseline:</i> 62 WCAs. <i>Target:</i> re-established 62 WCAs.</p>	<p>highly saline lands reduced by 55 percent.</p> <p>Achieved: 65 Water Consumer Associations (WCA) in seven project districts were re-established from administrative boundaries to hydraulic canal-level boundaries. They were provided technical and financial support.</p>	<p>- Ferghana Valley Water Resources Management Project – 09/24/2009 – 07/31/2016 (MS/MS)</p> <p>- South Karakalpakstan Water Resource Management Improvement Project – 06/12/2014 – 09/30/2021 (S/S).</p> <p>Non-Lending:</p> <p>- Water Resource Assessment – underway, FY16.</p> <p>- Strengthening Irrigation Governance (Regional activity) – underway, FY15</p> <p>Additional IFC Advisory Services (Not foreseen in the CPS): Agri- water efficiency improvement project, pre-implementation phase</p>	
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STRATEGIC THEME II: ENHANCE COMPETITIVENESS OF THE ECONOMY			
<p>National Priorities: Better institutions through improved macroeconomic management and more effective and transparent fiscal/budget policy; enhanced Industrial Competitiveness Better institutions through improved macroeconomic management and more effective and transparent fiscal/budget policy; enhanced Industrial Competitiveness.</p> <p>Issues and Obstacles; Restricted availability of key economic, financial, and social data; key economic data does not comply with the generally accepted methodology; economic and social development Strategy of Uzbekistan is not articulated in a publicly available document; fiscal and budget data is not publicly available.</p>			
<p>Data transparency and data quality improved as seen through publication of key budget data on the Ministry of Finance’s website.</p> <p><i>Baseline:</i> Situation FY12 <i>Target:</i> Publication of key data.</p>	<p>Achieved: Government has improved data transparency. However, some core macro variables are still publicly unavailable (e.g. balance of payment statistics, demand and supply breakdown of GDP, monetary aggregates, employment data).</p>	<p>Macroeconomic Monitoring TA - FY13. CPIA-driven Policy Dialogue TA - FY13.</p>	<p>To continue CPIA dialogue to work on the weakest CPIA indicators / areas.</p>
<p>Improved business environment as seen through enhanced regulatory policy in priority Doing Business areas.</p> <p>Starting Business. Number of procedures: <i>Baseline:</i> 6 (2011) <i>Target:</i> 4 (2015)</p> <p>Number of days to register business. <i>Baseline:</i> 14 (2011) <i>Target:</i> 6 (2015)</p> <p>Registering Property. Number of procedures. <i>Baseline:</i> 14 (2011) <i>Target:</i> 10 (2015)</p> <p>- Number of days to register property. - <i>Baseline:</i> 77 (2011) - <i>Target:</i> 68 (2015)</p>	<p>Partially Achieved: Specific TA focused on Doing Business reforms and competitiveness were provided leading to adoption of a new Law on Permit Procedures. It positively affected several indicators measured by the Doing Business report.</p> <p>Starting Business: Number of procedures reduced from 6 to 5.</p> <p>Number of day to register business reduced from 14 to 6.5 days.</p> <p>Registering Property: Number of procedures reduced from 14 to 13.</p> <p>Number of day to register property reduced from 77 to 55 days.</p> <p>Getting Credit.</p>	<p>Non-Lending: Property Registration in Uzbekistan -FY12. Improving the Construction Permitting System in Uzbekistan - FY12. Improving Access to Credit Through Secured Transactions Reform - FY12. Business Environment Assessment Report - FY13. Transforming Tourism Opportunities in Uzbekistan - FY13. National Quality Infrastructure – FY13. Enhancing SME’s Productivity and Competitiveness in Uzbekistan - FY13. Land Administration Dialogue -FY14.</p> <p>IFC INV: Portfolio at the end of CPS period comprised of GTFP line, MSME credit</p>	<p>Build capacity on implementation the adopted regulations at the lower level. At times, good Government decisions failed to achieve objectives because of weak capacity of officials in the respective sector, lack of outreach on newly adopted decisions. . To promote reforms in Uzbekistan WBG needs to better understand the country needs and be able to clearly explain how the proposed reform would address the needs. Once clear understanding is achieved by both sides, support and implementation of the reforms becomes a practical matter. For example, in case of the Collateral Registry IFC was able to clearly explain to the Government benefits if the modern secured transactions for SMEs and economy. This helped to quickly pass the reform and create the registry in July 1,</p>

<p>Getting Credit.</p> <ul style="list-style-type: none"> - Private bureau coverage. - <i>Baseline:</i> 3.6% of adults (2011) - <i>Target:</i> 20% of adults (2015) - Volume of outstanding loans to MSMEs in the portfolio of financial intermediaries supported by IFC. - <i>Baseline:</i> US\$120 million. - <i>Target:</i> US\$180 million (+50%) 	<ul style="list-style-type: none"> - Private bureau coverage increased from 3.6% to 17.8% (adults). <p>The volume of MSME loans provided by IFC client banks increased by about 138 percent from US\$120 million at the end of CY2010, to US\$285 million at the end of CY2014, reaching nearly 14,600 MSMEs.</p> <p>In November 2011, Uzbekistan adopted the Law on sharing of credit information that was developed with support of ACAFI Project. In March 2012, the Government created the private credit bureaus, which combined all banks (previously only 5 banks participated in information sharing on irregular basis). Later the credit bureau expanded its operations on leasing market and microfinance organizations.</p> <p>In result today, the credit bureau covers around 18% of adult population of Uzbekistan (500% growth rate so far).</p> <p>In May 2013, IFC signed an agreement with the bureau to invite a strategic technical partner in order to develop the entity accordingly to the best international practice.</p> <p>On July 1, 2014 Uzbekistan launched collateral registry that was organized as modern internet-based electronic registry of notices on security interest. Such kind of registry is the first one in the post-soviet</p>	<p>line, and equity in local banks.</p> <p>IFC AS: Azerbaijan and Central Asia Financial Infrastructure Project.</p> <p>IFC INV: Potential investments in petrochemicals and mining.</p>	<p>2014 (the entire reform took less than 3 years). Lessons learned during improvement of the system of sharing of credit information in short are following: 1) balance global experts with local specialists; 2) send state officials to emerging markets to see the proposed reforms and their results in practice; 3) ensure good media coverage s and build respective capacity of your stakeholders.</p> <p>Risk-certification program wasn't successful because of FX issues. Specifically, the program was based on certification exam of GARP which required payment for the exam. The payment had to be made in dollars (225 USD) via Internet (i.e. credit or debit card). However due to FX issues the potential candidates weren't able to pay for the exam or secure respective payment by their employers.</p> <p>In a difficult business environment, it is harder for IFC to reach smaller companies via financial intermediaries and other typical vehicles used for these purposes in other countries. In this environment, IFC might look into subnational financing leads as well.</p>
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	<p>countries. In 6 months after launch, the registry already had more than 150,000 registrations.</p> <p>Significant IFC business development efforts are making good progress in the manufacturing and gas sectors (e.g., joint ventures between SOEs and the private sector), but they will likely materialize in the upcoming CPF period. The business environment remained, however, challenging throughout the CPS period for any other investment opportunities to materialize.</p>		
STRATEGIC THEME III: DIVERSIFICATION			
<p>National Priorities: improved institutions for enterprise sector development; increase productivity of agriculture Issues and Obstacles; Restrictive business environment hinders modernization, economic growth FDI and export competitiveness; low agricultural productivity; limited financial support available for investments in high growth sectors</p>			
<p>Increased investment in human and physical capital in the agriculture sector, as seen through:</p> <p>Number of farms benefitting from credit lines. <i>Baseline:</i> 0. <i>Target:</i> 400 farms and agribusinesses.</p> <p>Training and seminars for farmers/agribusiness owners. <i>Baseline:</i> 0. <i>Target:</i> 50,000 participants.</p>	<p>Achieved: 560 farms and agribusinesses have thus far benefitted from the credit line through six participating financial institutions. Investments financed include agricultural machinery such as tractors and grain harvesters, livestock, poultry business, agro-processing, orchards and vineyards, fish farming, greenhouses and vegetable farming.</p> <p>Achieved: 938 on-farm management-training seminars have been conducted for 61,426 farmers/agribusiness owners, including 7,530 women. Included in all trainings is a session on the prevention of child labor in</p>	<p>Lending: Rural Enterprise Support Project –Phase 2 – 06/12/2008 – 12/31/2016 (MS/MS) Additional Financing for RESP 2 - 09/11/2012 - 12/31/2016 (MS/MS) Horticulture Development Project – 06/12/2014 – 06/30/2021 (S/S).</p> <p>Non-Lending: GEF grant for Sustainable Agriculture and Climate Change Mitigation Project – 01/29/2013 – 12/31/2016 (MS). Horticulture Policy Note – FY13. Reducing the Vulnerability of</p>	<p>CPS outcomes should be more realistic and less ambitious.</p> <p>More focus on client / beneficiaries.</p> <p>Harmonization and closer alignment of WB and GoU project preparation cycles.</p> <p>Take into account long internal GoU processes for decision-taking during the project implementation (restructuring, reallocation, cancellation and etc).</p>

	<p>addition to covering topics ranging from orchard and vineyard production to preparing business plans, agricultural law and taxation; to processing and marketing of products.</p> <p>The investments in these companies have not materialized in the CPS period. The new CPF foresees to continue searching opportunities in the agribusiness sector.</p> <p>During FY12-15, IFC Agrifinance Advisory Team signed three Project Services Agreements (PSA):</p> <ul style="list-style-type: none"> - two PSAs with Hamkorbank (i) delivered a series of trainings on specifics of agri-lending as well as assisted Hamkorbank’s dedicated staff in assessing of 30 agri-lending deals through on-job trainings in the fields. It led to boosting of agri-lending portfolio from \$400K in Sep 2013 up to \$15 million in Dec 2014 and (ii) a diagnostic of the bank’s current leasing and long-term equipment lending operations with the aim of incorporating the specifics of agri equipment in the current processes; - one with Uzbekistan Lessors’ Association, where the project designed and delivered training session on agri-leasing risk mitigation tactics in agri-leasing transactions 	<p>Uzbekistan’s Agricultural Systems to Climate Change - FY14.</p> <p>IFC INV: A loan to agro-processing company AGROMIR.; a loan to International Bottles Tashkent Company</p> <p>IFC AS: Central Asia Agrifinance Project (active client: Hamkorbank, Uzbekistan Lessors Association);</p> <p>IFC AS: Food Safety advisory.</p>	
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STRATEGIC THEME IV: IMPROVING ACCESS TO SOCIAL SERVICES			
<p>National Priorities: Improve the quality of primary and basic secondary education while maintaining universal access; improve access to quality health care at the primary level and at secondary health care facilities Increased access to water and sanitation.</p> <p>Issues and Obstacles: Poor quality and relevance of education; poor infrastructure and outdated diagnostic and medical equipment at the rayon level secondary facilities; inefficient resource allocation to rayon hospitals based on input-based norms (bed and staff numbers), reflecting nominal capacity and not the level of services provided; inadequate access to safe water and sanitation services in urban and rural areas; low capacity of sector institutions; inefficient WSS sector financing.</p>			
<p>Improved quality of education services in pilot schools in project area as measured through the comparison of the results from the national student assessment between project and non-project schools.</p> <p><i>Baseline:</i> None. <i>Target:</i> scores in project schools 3% higher than those in non-project schools</p>	<p>Achieved. Two rounds of national standardized student assessments have been carried out, one in 2008 and one in 2013. The report on results show and overall upward trend in learning achievements in project schools of three percent.</p> <p>Learning materials are provided to all 2195 project schools (10 percent of total number of schools in the country) have received learning materials.</p>	<p>Lending: Basic Education Project-Phase 2 – 06/23/2009 – 03/31/2014 (<i>closed</i>; <i>ICR ratings for Outcomes – MU, Risk to DO – M, Bank Performance – MU, Borrower Performance MS</i>).</p> <p>Non-Lending: GPE Grant for Improving Pre-school and Basic Education Project – 10-23/2014 – 01/31/2018. Improving Early Childhood Care and Education, Tertiary Education Policy Note (FY13).</p>	
<p>Improved quality of health services as seen through the refurbishment of rayon-level-project health facilities with modern biomedical equipment.</p> <p><i>Baseline:</i> None <i>Target:</i> 50 refurbished health facilities.</p>	<p>Partially Achieved: Number of health facilities was increased through the Additional Financing for the ongoing operation and totaled 157 RMUs and 15 City Medical Unions. As of end-2015, delivery of equipment to all facilities has begun with part of the equipment already delivered and installed, and the procurement and delivery of other pieces is in progress.</p>	<p>Lending: Health 3 – 04/07/2011 – 12/31/2016 (MS/MS). Additional Financing for Health 3 - 03/07/2013 – 12/31/2018 (MS/MS).</p> <p>Non-Lending: Results-Based Financing for Health TA (FY12).</p>	
<p>Increased capacity of health personnel in urban and rural PHC facilities receiving the training</p>	<p>Achieved: Activities are in progress and targeted for completion 2018. As of end-2015: 2,510 (against</p>		

<p>under 10-month GP program. <i>Baseline:</i> 670 doctors <i>Target:</i> 3000 by 2018.</p> <p>Health personnel at PHCs receiving training under continuous professional education. <i>Baseline:</i> 0. <i>Target:</i> 9,400 doctors and 85,500 nurses by 2018</p>	<p>2,000 planned) doctors received the training under the 10-month GP program.</p> <p>Partially Achieved: Activities are in progress and targeted for completion 2018. As of end-2015: 7,756 doctors and 21,557 nurses have received training under continuous professional education.</p>		
<p>Increased household access to sanitation services in project areas of Bukhara and Samarkand. <i>Baseline:</i> 0. <i>Target:</i> 6,000.</p>	<p>Achieved: Cumulative number of household connected to public sewer system: 3,500 in Bukhara and 11,000 in Samarkand</p>	<p>Lending: Bukhara and Samarkand Sewerage Project – 08/04/2009 – 12/31/2015 (MS/MS) Additional Financing for BSSP – 05/29/2015 – 12/31/2019. Syrdarya Water Supply Project – 03/01/2011 – 12/31/2017 (MS/MU). Alat and Karakul Water Supply Project – 12/13/2012 – 12/31/2017 (MU/MU).</p> <p>Non-Lending: Social Impact Analysis of WSS services (Regional activity) – underway, FY15. Analysis of Water Supply & Sewerage Services in Central Asia – underway, FY16</p>	<p>Institutional capacity should be taken into account while designing implementation arrangements. Multi-layer implementation arrangements add inefficiency and ineffectiveness to communication and project implementation, as a whole. Simple implementation schemes should be considered at the preparation stage.</p>

CROSS THEMATIC AREA: GOVERNANCE			
<p>National Priorities: increase efficiency of public financial management. Issues and Obstacles: limited access to economic & financial information, and accounting and reporting do not sufficiently ensure transparency of financial information; legal & institutional framework for internal and external audit below international benchmarks.</p>			
<p>Improved framework for transparency and management of public finances, as seen through:</p> <ul style="list-style-type: none"> - Development and adoption of Public Procurement Strategy and Public Procurement Law. - Developed framework for internal control and audit of the Ministry of Finance. 	<p>Partially Achieved: Public Procurement Strategy is being finalized and under discussion with the Government. Draft Public Procurement Law is at the final stage of preparation in close collaboration with the UNDP.</p> <p>Partially Achieved: PEFA report was completed in FY13 and shared with the Government, but never disseminated. Software for Risk Based tax audits of Unified Single Taxpayers has been developed jointly with the IFC and State Tax Committee It has been piloted in three districts of Tashkent city.</p> <p>Completed the Country Strategy and Action Plan for Enhancing Financial Reporting in the Banking Sector in Uzbekistan by the Centre for Financial Reporting Reform (CFFR).</p> <p>In 2014 the Government adopted a resolution requiring all drafts of regulatory acts to be discussed with public through E-Gov web-site (FY15). Since 2013 IFC has provided advisory services to the State Tax Committee of Uzbekistan (the STC) on development and</p>	<p>Non-Lending: ECA PFM Grant – Improving the Public Procurement Outcomes TA - ongoing; FY16.</p> <p>PEFA Assessment - FY13. Enhancing Financial Reporting and Auditing in the Banking System (FIRST TA) - FY13. Strengthening Regulatory and Supervisory Framework (FIRST TA) - FY13. Accelerating ICT Adoption and Support for Implementation of the e-Government Development Master Plan (Korean TA) - FY13.</p> <p>IFC AS: Central Asia Tax project.</p>	<p>Maintaining and improving collaboration with other donors in this area, i.e. with UNDP, to render support as needed.</p> <p>Mobilization of TF to support the requested (by Government) for TA took a while.</p> <p>Bank should invest more in preparation of economic governance projects and understand better the capacity challenges. The client's readiness for major reforms, understanding of the implications and absorption capacity were lower compared to initial estimates. Corporate financial reporting should remain a priority for the next CPS. It is relevant for corporate sector development, including transparency and Governance of SOEs and banks. Some distinct activities could be designed to support implementation of the strategy developed under previous engagement and based on policy recommendations of 2008 A&A ROSC.</p>

	<p>implementation of Risk Based Audit System (RBA) to select risky taxpayers for inspection. During 2013-2014 RBA system module for risk assessment of taxpayers in simplified tax regime was developed, piloted and implemented, while module for risk assessment of taxpayers in general tax regime is in the process of development. The STC uses RBA system to detect risks of tax underreporting or fraud to focus inspectors' attention on the riskiest taxpayers. The introduction of RBA system will help the STC to improve potentially performance of tax audit as well collection of budget revenue and reduce compliance burden on compliant businesses, including majority of SMEs</p>		
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CLR ANNEX 2: CPS LENDING AND AAA PROGRAM: PROJECTED AND ACTUAL

CPS Lending Program (Plan) (US\$ million)				CPS Lending Program (Actual) (US\$ million)				
FY 12	IBRD	IDA	Notes	FY 12	IBRD	IDA	Disb.	Other
Advanced Electricity Metering	110		Delivered in FY12 →	Advanced Electricity Metering	180		0.45	
Alat-Karakul Water Supply		50	Delivered in FY13 →					
Rural Enterprise Support II - AF		40	Delivered in FY13 →					
Total FY12	110	90		Total FY12	180	0	0.45	0
FY13				FY13 Actual				
Water Sanitation Sector Investment I		50	Postponed to FY16 →	Alat-Karakul Water Supply		82	0.75	
Enterprise Energy Efficiency II	100		Delivered in FY13 →	Rural Enterprise Support II – AF		40	13.72	
South KKP Water Resource Improvement		150	Delivered in FY14 →	Energy Efficiency for Indust. Enterprises - AF		100	19.79	
				Health 3–AF		93	0.00	
				GEF Grant (Associated with RESP II-AF)			2.17	12.69
Total FY13	100	200		Total FY13	0	315	36.43	12.69
FY14				FY14 Actual				
Electricity Distribution	100		Postponed to FY16 →	South KKP Water Resource Improvement	17.5	242.5	0.00	
Early Childhood Development		50	Financed by GPE →	GPE Grant – Early Childhood			0.00	49.9
Horticulture Pilot Project	100		Delivered in FY14 →	Horticulture Development Project	150		0.00	
Water Sanitation Sector 2		100	Postponed to FY17 →					
Microfinance access		100	Dropped [IDA to HealthAF]					
Total FY14	200	250		Total FY14	167.5	242.5	0.00	49.9
FY15				FY15 Proposed				
District Heating Project		200	Postponed to FY16 →	Pap-Angren Railway Project	195		0.00	
IDA Project Unidentified (IDA17)		100	Scheduled for delivery in FY15 →	Bukhara & Samarkand Sewerage Project - AF		105	0.00	
Transport Unidentified	100		Scheduled for delivery in FY15* →	Regional Road Development Project		200	0.00	
IBRD Project Unidentified (outer years)	100							
Urban Integrated Development Project	100							
Total FY15	300	100		Total FY15	195	305*	0.00	0
Total Lending FY12-15 (Plan)	710	640		Total Lending FY12-15 (Actual)	542.5	862.5	36.88	162.59

*_/ IDA-17 allocation for FY15 is SDR161.0 million

CPS AAA Program (Plan)			CPS AAA Program (Actual)		
I.IMPROVING INFRASTRUCTURE	TA/ESW	Completion		Status	Completion
Energy Sector Strategy	ESW	FY12	Energy Sector Strategy Note	Delivered	FY13
Uzbek/Afghan/Pakistan Energy Assessment	TA	FY12/FY13	Uzbek/Afghan/Pakistan Energy Assessment	Delivered	FY13
			Sourcebook for Industry Energy Efficiency	Delivered	FY13
Transport Assessment	ESW	FY13	Transport Sector Review	Delivered	FY13
			Trade Logistics and Supply Chain Performance	Delivered	FY13
			PSIA in District Heating	Delivered	FY15
			Energy Subsidies Study	Underway	FY16
Water Resource Management Strategy	ESW	FY13	Water Resource Management Study	Underway	FY16
II. ENHANCE COMPETITIVENESS OF ECONOMY					
Macroeconomic Monitoring	TA	Yearly	Macroeconomic Monitoring	Underway	Yearly
Data Sharing and Transparency	TA	FY13	CPIA Policy Dialogue	Underway	Yearly
Uzbekistan Vision 2030	TA	FY13	Improving the Construction Permitting System in Uzbekistan	Delivered	FY12
Industrialization Policy Note	ESW	Yearly	Improving Access to Credit Through Secured Transactions Reform	Delivered	FY12
			Property Registration in Uzbekistan	Delivered	FY12
			Enhancing SME's Productivity and Competitiveness in Uzbekistan	Delivered	FY13
			Transforming Tourism Opportunities in Uzbekistan	Delivered	FY13
			Business Environment Assessment Report	Delivered	FY13
			Strengthening Regulatory and Supervisory Framework (FIRST TA)	Delivered	FY14
			Enhancing Financial Reporting and Auditing in the Banking System (FIRST TA)	Delivered	FY14
			Accelerating ICT Adoption and Support for Implementation of the e-Government Development Master Plan (KTF)	Delivered	FY14
			Land Administration Dialogue TA	Delivered	FY14
			Natural Resource Management TA	Delivered	FY14
			Vision 2030	Delivered	FY14
III. DIVERSIFICATION					
Doing Business	TA	Yearly	Doing Business	Delivered	Yearly
Innovation and Growth	TA	Yearly	Strengthening Horticulture Value Chain Note	Delivered	FY13
Financial Sector	TA	FY12-14	National Quality Infrastructure	Delivered	FY13
Horticulture Strategy	ESW	FY12	Climate change impacts and adaptation responses reshaping agriculture in ECA	Delivered	FY14
National Quality Infrastructure	TA	FY13	Third Party Monitoring and Feedback Mechanism Support	Underway	FY17
IV. SOCIAL SERVICE DELIVERY					

Completion and Learning Review

Water Utility Pricing Note	ESW	FY12	Improving Early Childhood Care and Education	Delivered	FY13
Poverty Monitoring and Analysis	TA	Yearly	Modernizing Higher Education	Delivered	FY14
			Cities Alliance - Bukhara Samarkand Urban Dev.	Delivered	FY14
			User Impact Assessment of Water Utilities	Delivered	FY15
			Jobs and Social Protection	Delivered	FY15
CROSS-CUTTING THEME: GOVERNANCE					
Public Exp. and Financial Accountability (PEFA)	ESW	FY12	Public Exp. and Financial Accountability (PEFA)	Delivered	FY13
			Social Impact Assessment in Water Utilities	Delivered	FY15
			Procurement Strategy and Procurement Law Development TA	Underway	FY16
			Improving Irrigation Governance (CA study)	Underway	FY15
			Social Accountability for Agriculture Water Users	Underway	FY15

Annex C: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE & MANAGEMENT

As of 05/18/2016

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	10.0	11.0	14.0	16.0
Average Implementation Period (years) ^b	2.9	3.2	3.4	4.0
Percent of Problem Projects by Number ^{a, c}	20.0	54.5	28.6	53.3
Percent of Problem Projects by Amount ^{a, c}	22.6	41.5	21.6	59.1
Percent of Projects at Risk by Number ^{a, d}	20.0	54.5	28.6	60.0
Percent of Projects at Risk by Amount ^{a, d}	22.6	41.5	21.6	62.4
Disbursement Ratio (%) ^e	13.8	10.5	10.2	9.6
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	16	3
Proj Eval by OED by Amt (US\$ millions)	606.5	124.1
% of OED Projects Rated U or HU by Number	40.0	66.7
% of OED Projects Rated U or HU by Amt	51.2	66.6

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.

Annex D: OPERATIONS PORTFOLIO (IBRD/IDA AND GRANT)

As of 01/31/2016

Closed Projects 16

IBRD/IDA*

Total Disbursed (Active)	459.82
of which has been repaid	0.00
Total Disbursed (Closed)	289.35
of which has been repaid	398.12
Total Disbursed (Active + Closed)	749.17
of which has been repaid	398.12
Total Undisbursed (Active)	1,410.74
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	1,410.74

**Difference
Between
Expected and
Actual**

Active Projects

Project ID	Project Name	Last PSR			Original Amount in US\$ Millions					Orig.	Disb % Frm Rev'd
		Supervision Rating			IBRD	IDA	Grants	Can cel.	Undisb.		
		Devel opment Objec tives	Imple menta tion Progre ss	Fisc al Yea r							
P122773	Advanced Electricity Metering Project	MU	MU	2012	180.0	0.0		0.0	179.4	179.4	52.7
P118197	Alat-Karakul Water Supply Project	MU	MU	2013	0.0	82.0		0.0	70.1	0.0	0.0
P112719	Bukhara & Samarkand Sewerage Project	S	MS	2010	0.0	160.0		0.8	106.3	4.4	0.0
P118737	Energy Efficiency for Industrial Enterprises	S	MS	2010	0.0	125.0		0.0	42.6	-51.6	-51.6
P110538	Ferghana Valley Water Resources Management Project	MS	MS	2010	0.0	65.5		0.6	12.6	15.9	0.0
P113349	Health System Improvement Project	MU	U	2011	0.0	186.0		0.0	122.2	29.8	42.9
P133703	Horticulture Development Project	MS	MU	2014	150.0	0.0		0.0	140.7	46.4	0.0
P128516	Modernizing Higher Education Project	#	#	2016	0.0	42.2		0.0	42.2	0.0	0.0

P146328	Pap-Angren Railway Project	S	MS	2015	195.0	0.0	0.0	184.8	-10.2	0.0	
P146334	Regional Roads Development Project	S	MU	2015	0.0	200.0	0.0	204.1	0.0	0.0	
P109126	Rural Enterprise Support Project II	MS	MS	2008	0.0	108.0	0.0	5.2	-27.0	0.0	
P127764	South Karakalpakstan Water Resource Management Improvement Project	MU	U	2014	18.3	242.5	0.0	234.1	88.4	0.0	
P127486	Sustainable Agriculture & Climate Change Mitigation GEF Project	MU	MU	2013	0.0	0.0	12.7	0.0	9.9	9.9	
P111760	Syrdarya Water Supply Project	MU	U	2011	0.0	88.0	7.0	48.0	0.0	0.0	
P119939	Talimarjan Transmission Project	S	MS	2011	110.0	0.0	6.6	8.6	15.2	5.8	
Overall Result					653.3	1,299.2	12.7	15.0	1,410.7	300.6	49.7

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex E: STATEMENT OF IFC'S HELD AND DISBURSED PORTFOLIO

As of 01/31/2016

FY Approval	Company	<u>Committed</u>					<u>Disbursed Outstanding</u>					
		Loan	Equity	**Quasi		*GT /RM	Partici pant	Loan	Equity	**Quasi		*GT/ RM
Equity	Equity			Equity	Equity							
FY10	HAMKORBANK	0.00	2.54	0.00	0.00	0.00	0.00	2.54	0.00	0.00	0.00	0.00
FY11	HAMKORBANK	0.00	0.44	0.00	0.00	0.00	0.00	0.44	0.00	0.00	0.00	0.00
FY12	HAMKORBANK	0.00	0.48	0.00	0.00	0.00	0.00	0.48	0.00	0.00	0.00	0.00
FY14	HAMKORBANK	6.43	1.30	0.00	0.00	0.00	6.43	1.22	0.00	0.00	0.00	0.00
FY15	HAMKORBANK	0.00	0.59	0.00	0.00	0.00	0.00	0.59	0.00	0.00	0.00	0.00
FY16	INDORAMA GROUP	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Portfolio:		46.43	5.35	0.00	0.00	0.00	6.43	5.27	0.00	0.00	0.00	0.00

Annex F: INDICATIVE WBG LENDING PROGRAM FY16-20

#	Global Practice	Project	IBRD US\$m	IDA US\$m
<i>FY16</i>				
1	Education	Modernizing Higher Education Project		42
2	Urban, Social and Rural Development	Modernization of Property Registration and Cadastre Project		20
Total for FY16			0	62
<i>FY17</i>				
3	Water	Ferghana Valley Water Resource Management Project – Phase 2		211
4	Transport and ICT	Navoi-Kanimech-Misken Railway Project	115	
5	Energy & Extractives	Electricity Distribution Networks Rehabilitation Project	155	
6	Energy & Extractives	Modernization and Upgrade of Transmission Substations Project	185	
7	Energy & Extractives	District Heating and Energy Efficiency Project		140
8	Agriculture	Livestock Development Project		150
Total for FY17			455	501
<i>FY18</i>				
9	Energy & Extractives	Renewable Energy Project (wind/solar)	100	
10	Energy & Extractives	Energy Efficiency for Industrial Enterprises – Phase 3		100
11	Water	Reconstruction of Sewerage Networks in Nukus and Takhiatash Project		50
12	Agriculture	Agriculture Modernization Project	200	
13	Health, Nutrition & Population	Emergency Health Services Improvement Project		55
14	Urban, Social and Rural Development / Social Protection / Trade & Competitiveness	Jobs and Skills for Modern Economy Project		100
Total for FY18			300	305
<i>FY19</i>				
-	Rural Development Project			
-	Water Sanitation and Irrigation			
-	Roads Development Project Phase 2			
-	Energy Efficiency Project Phase 3			
-	Vocational Education Project			
-	Integrated Urban Development Project			
Total for FY19				
<i>FY20</i>				
-	Roads Project Phase 3			
-	Energy efficiency Phase 4			
-	Water Supply and Sanitation			
-	Private Sector Development			

Annex G: INDICATIVE WBG FY16-18 ASA PROGRAM

#	Product	Type	FY16	FY17	FY18
	Agriculture GP				
1	Agriculture Modernization Strategy	ESW	X	X	
2	Assessing constraints and opportunities for socially responsible cotton intensification and mechanization (Joint activity by AG, Land/SURR GPs, Social/SURR, MFM and T&C GPs)	KP		X	X
	Education GP				
3	Review of vocational education challenges and opportunities	ESW		X	
4	Analysis of teachers policy from preprimary to tertiary education	ESW			X
5	Innovative learning environments in pre-university education	TA		X	
	Energy and Extractives GP				
6	Energy Planning Study	TA	X	X	
7	Energy Tariffs in Uzbekistan: Impact and the Way Forward	TA	X	X	
8	Support the Development of a National Industrial Energy Management Program	TA	X	X	X
9	PPP Institution Building	TA		X	X
10	Energy Sector Development Note	ESW			X
11	Scale-up of Renewable Energy Sources	TA			FY19
	Environmental & Natural Resources GP				
12	Enhancing natural resource management through landscape approaches	ESW		X	
	Finance & Markets				
13	F&M survey on MSMS' demand for financing	ESW		X	
14	Central Asia Agrifinance	TA	X	X	
15	Financial Infrastructure	TA	X	X	
	Governance GP				
16	SOE Corporate Governance TA (Review and assessment of the current framework as agreed in the Roadmap signed between the Bank and the Government)	TA		X	
17	Assessment and Strategy development for Public Sector Internal Audit	ESW		X	
18	Fiduciary review of the Water Sector (covering fiduciary performance and governance of the sector and identifying systemic weaknesses)	ESW		X	
19	Public Expenditure and Financial Accountability (PEFA) assessment; systematic diagnostic of the Public Financial Management (PFM) system	ESW			X
20	Accounting and ROSC	ESW			X
	Health, Nutrition & Population GP				
21	Health Sector Review	ESW			X
	Macro & Fiscal Management				
22	Programmatic CEM: Pacing of Market Reforms in Uzbekistan	ESW		X	X
	Poverty GP				
23	Programmatic Welfare Monitoring in Middle Income Countries	TA	X	X	
24	Pathways to the Global Middle Class	ESW		X	
	Social Protection & Labor GP				
25	Firm skills needs assessment (firm STEP)	ESW		X	
26	Evaluation of flexible wage subsidy program for cotton picking	ESW		X	
27	Assessment of national pension system (fiscal sustainability, equity, efficiency, etc.), including reform options (on-going discussion with the MOF and Pension Fund)	ESW		X	
28	Study of the role of mahallas in delivering social services and ways to improve coordination with the line Ministries	ESW		X	
29	Small and medium business support program options	ESW			X
30	Study of informality, both urban and rural	ESW			X
31	Evaluation of the safety net programs in Uzbekistan (coverage, targeting, impact, efficiency)	ESW			X
	Trade and Competitiveness				
32	Investment Climate Reform	TA		X	X

33	Uzbekistan Trade Logistics	TA		X	
34	Doing Business Reform	TA		X	
35	IFC New Mandate Letters Signed With Financial Sector or Real Sector Clients				X
	Transport and ICT GP				
36	Improving connectivity and logistics services in Uzbekistan	TA	X	X	X
37	Tashkent urban transport strategy and action plan	TA	X	X	X
38	Meeting Uzbekistan's commitments to COP21 in railways and roads	TA	X		
	Urban, Social and Rural Development GP				
39	Disaster Risk Management	TA		X	X
40	Assessing barriers for strengthening rural women livelihoods in low-income areas of Uzbekistan	TA		X	
	Water GP				
41	WSS Sector Policy Recommendations Dissemination	ESW		X	
42	Water Sector Reforms Diagnostics and Support Plan	ESW		X	
43	Knowledge Sharing and Capacity Strengthening for Utility Managers	TA		X	
44	WASH Poverty Diagnostics	ESW			X
45	National Water Supply Source and Demand Assessment	TA			X
46	Water Resources Assessment	TA		X	
47	Performance Measurement in Irrigated Agriculture	TA			X
	CCSA: PPP				
48	IFC Transaction Advisory for Privatization of Two Fertilizer Plants	TA		X	X
49	IFC Transaction Advisory on PSP in Renewable Power Generation	TA		X	

Annex H: ISSUE OF CHILD AND FORCED LABOR IN THE COTTON SUB-SECTOR

1. Uzbekistan has signed and ratified several ILO conventions related to child and forced labor.²⁰ These conventions, and the International Covenant on Civil and Political Rights (ICCPR) to which Uzbekistan is also a signatory, essentially prohibit all forms of child²¹ and forced labor.²² Uzbekistan’s domestic legislation—the Constitution, the Labor Code, the Criminal Code, as well as other local laws and decrees—includes provisions prohibiting child and forced labor.

2. Child labor for cotton harvesting—a legacy of the Soviet era—used to be widespread, but in recent years has mostly disappeared. In 2013, joint ILO-government monitoring of the cotton harvest concluded that “*there was no systematic recourse to forced child labor*” and government national monitoring in 2014 confirmed this conclusion. In 2015, ILO-government monitoring in ten *oblasts* where WBG-financed agricultural projects are being implemented found no conclusive evidence that the beneficiaries of these projects used child or forced labor. However, serious concerns were raised about the potential for forced labor associated with the widespread mobilization of adults for cotton harvesting. Noting that the risks of forced labor were acknowledged by the authorities, ILO monitoring concluded *inter alia* that additional vigorous steps were required to remove them.

3. A Poverty and Social Impact Assessment of Cotton Mechanization underscored that for some, cotton picking provides a welcome influx of cash income. Cotton pickers receive a fixed rate in cash for each kilogram of cotton picked. Those who are able to harvest more than the daily quota receive additional “awards” such as cottonseed oil or stalks. In a cash-strapped economy, where most officials’ salaries are paid in the form of ‘non-cash’ bank transfers, cotton picking may be a way to access cash. In fact, low- and middle-income cotton pickers report that this cash income is important for family expenditures such as school fees and cultural celebrations such as weddings and funerals. Cotton pickers recruited from non-agricultural sectors of the economy continue to receive their normal salaries.

4. In the past few years, the government has introduced a number of mitigation measures, including the creation of a Coordination Council on Elimination of Child Labor co-chaired by the Federation of Trade Unions, the Ministry of Labor and Social Security, and the Chamber of Commerce and Industry. In July 2015, the government introduced a range of additional measures to mitigate the risks of forced labor, including an ‘Action Plan to Facilitate Free Recruitment’ with provisions to ensure that health and education facilities remain fully operational throughout the cotton harvest as well as measures to encourage voluntary recruitment of cotton pickers. Third, with ILO and WBG support, the government introduced an information campaign advocating against child and forced labor and setting up two call centers to receive complaints.

5. Since September 2013 request to the Inspection Panel alleging the use of forced labor under a WBG-financed project, the WBG adopted a multi-pronged approach to child and forced labor issues in Uzbekistan. This includes: (a) continuous in-country dialogue and collaboration with multilateral agencies and development partners concerned; (b) analytical work and

²⁰ Convention No. 138 on Minimum Age for Admission to Employment; Convention No. 182 on Worst Forms of Child Labor; Convention No. 29 on Forced Labor; and Convention No. 105 on Abolition of Forced Labor.

²¹ According to Article 2 of Convention No. 182, the term ‘child’ “. shall apply to all persons under the age of 18.”

²² According to Article 2 of Convention No. 29, the term ‘forced or compulsory labor’ refers to “. all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily.”

investment lending designed to promote the mechanization of cotton harvesting and crop diversification away from cotton; and (d) project-level mitigation measures and binding provisions, including a Third Party Monitoring (TPM) and Feedback Mechanism (FBM) to help monitor child and/or forced labor issues in particular projects and within project areas. After a one-year deferral, to assess progress in WBG dialogue with the government, the Inspection Panel recommended in December 2014 against undertaking a full inspection. In so doing, it concluded that significant progress had been made in eliminating child labor and that WBG and other development partners' engagement in Uzbekistan's agriculture supports "... the diversification and modernization of the cotton sector so that child and forced labor can be firmly eradicated." On January 23, 2015, the Board approved this recommendation on an 'absence of objection' basis.

6. Since 2013, the WBG has been working on a number of measures designed to foster socially, environmentally, and financially sustainable production of cotton in Uzbekistan, including the elimination of child and forced labor. Key among these measures is the Third Party Monitoring and a Feedback Mechanism noted above. To this end, on October 15, 2014, the WBG signed a Memorandum of Understanding stipulating that the ILO will carry out monitoring in WBG-financed project areas in 2015 and 2016 as agreed with the government. The Feedback Mechanism is also implemented by the ILO and includes three components: (a) strengthening the existing Uzbek Grievance Redress Mechanisms (GRM); (b) a "facilitation" handled by the ILO as managers of the TPM, which serves as an independent channel for people not wishing to work through Uzbek channels; and (c) an international channel through the ILO's supervisory mechanism.

7. The WBG remains concerned about the continuing risks of forced labor in the context of the large-scale organized recruitment of cotton pickers and has urged the government to take much bolder steps to transform agriculture and labor relations, based on the principles of efficiency and market-led incentives, and thus to ensure that all risks of forced labor are fully mitigated. In response, the government has developed an Action Plan to improve labor conditions, employment and social protection of workers in agriculture in 2016-2018, covering themes of national regulatory and legal framework, agriculture modernization and mechanization, improving employment mechanisms and conditions for seasonal agricultural workers, strengthening monitoring and feedback mechanisms for child and forced labor prevention. Plans for monitoring in 2016, with a stronger focus on systems and protective measures that are put in place to ensure that organized recruitment is taking place on voluntary basis, are currently being negotiated between the GoU and the ILO.

Annex I: AGRICULTURE MODERNIZATION STRATEGY

1. Although its share of the economy is declining—from 30 percent of GDP in 2000 to 15.8 percent in 2014—agriculture remains a critical source of rural employment and an important driver of economic growth and poverty reduction. Agriculture accounts for 27 percent of total employment. Structural changes in land tenure following the break-up of Soviet era collective and state farms resulted in the formation of private farms with long-term leases and in the expansion of small household plots. These farms account for much of the growth in agricultural output in recent years, with strong productivity gains leading to increased household incomes. State planning and control is now confined to cotton and wheat; arrangements for other crops, mainly fruits and vegetables, as well as livestock are more flexible, leading to significant diversification. Consequently, export earnings from horticulture more than tripled between 2006-14, from \$373 million to \$1.4 billion, with productivity gains exceeding 50 percent especially for fruits, vegetables and wheat since 2000.

2. Agriculture constitutes and will remain the main source of employment for the rural population. According to official data, the number of people employed in agriculture grew from 3 million in 2003 to 3.4 million in 2013, or by 11 percent. While this number is not expected to increase significantly, the agro-food system at large will become an important source of off-farm employment: upstream in support services and downstream in agribusiness for post-harvest operations, processing, storage, and exports. Meanwhile, Uzbekistan is already moving gradually away from producing agricultural products *per se* to value-addition through agro-processing, exemplified, for example, by steadily expanding cotton textile processing and an emerging garment sector. Value-addition in livestock has the potential to generate additional incomes for producers and create jobs in agro-food industries for local and regional dairy, meat, and poultry markets. Agro-foods are also an important source of employment for women and their inclusion in the economy. With a large share of the male labor force working abroad, many farms are now managed by women; and the recent growth of the agro-food industry is providing new job opportunities to women in rural areas.

3. Improving the competitiveness of agricultural is key to generating good jobs in the agro-food system and reducing rural poverty. With scarce land and water assets, a growing population, climate change risks, and volatile export markets, comprehensive modernization of agriculture is indispensable to improve its performance and to contribute to its integration into a more open and competitive economy, while minimizing social disruptions. Poverty is concentrated in rural areas, which account for half the population but three-quarters of the poor and where the bulk of the population is engaged in agricultural or related activities. FAO projects that, while the proportion of people living in rural areas will decline, the number of people living in rural areas will remain largely unchanged, as the population grows (up by one-third since 1991).

4. Low value-added crops continue to absorb a disproportionate share of land, water and labor resources. Uzbekistan's agriculture remains dominated by cotton and wheat which still account for 70 percent of cultivated land but less than 20 percent of gross agricultural output. Cotton exports remain an important source of foreign exchange for the government, though the current tax and subsidy regime pays low prices to farmers which limits its profitability. While land reforms have increased the space for private agriculture, the land base available remains limited. The government's approach so far has been based on an administrative re-allocation of land in designated areas, rather than increased flexibility in land use and cropping decisions. Thus, agriculture remains largely managed by the state and dominated by state-controlled monopolies, which has limited innovation

and efficiency. Beyond cotton and wheat, there is limited value-chain organization, research and extension, or services to farmers and access to finance.

5. The government’s long-term vision is to transform Uzbekistan into an industrialized upper middle-income country by 2050. To achieve this goal, it needs to transition from a factor-driven economy to a more market-oriented, efficiency-driven one through diversification and investments in skills, institutions and infrastructure to improve energy-efficiency and trade logistics. Two important principles of the government’s vision are: (a) economic diversification away from commodity exports; and (b) ensuring a more equitable distribution of the benefits of growth across regions and income groups. Agricultural development, including of labor intensive crop and livestock production and job creation in associated upstream and downstream agribusinesses, is seen as contributing to both.

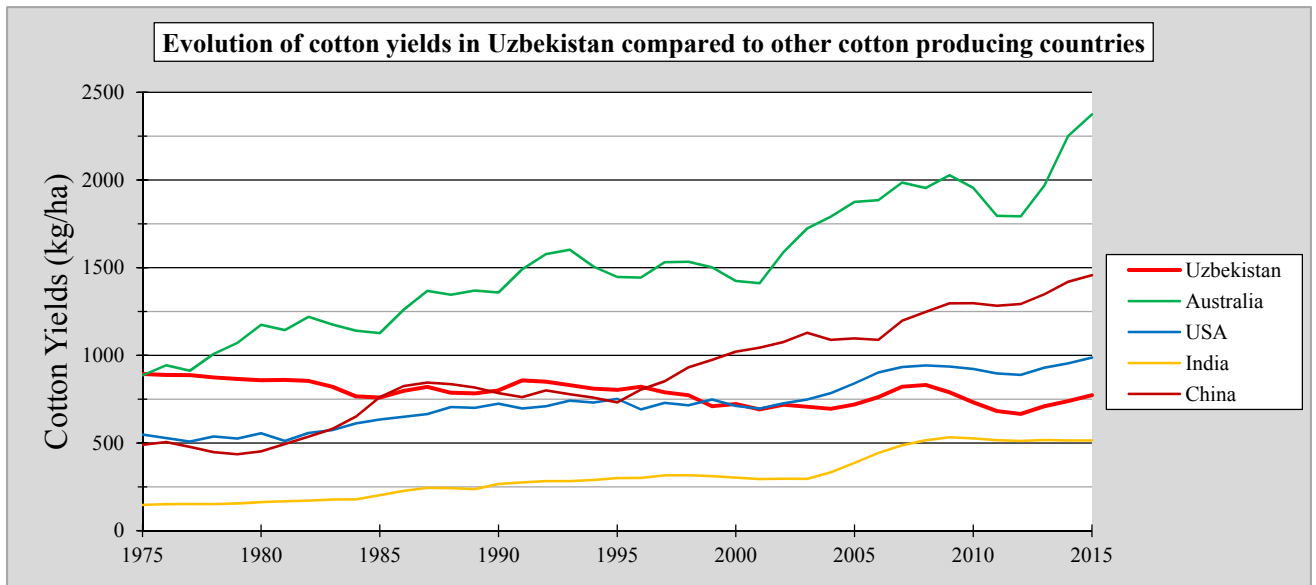
6. Agricultural Modernization Strategy: The WBG is providing technical assistance to help the authorities define their agricultural modernization strategy. The sector will require an enabling environment that catalyzes private sector investment and a realignment of agriculture with the rest of the overall economy. The current practice of directed government interventions will require transition to resource allocation and supply decisions by farmers and markets, as opposed to a government set and financed plan. Existing value-chains have to gradually become more viable and competitive through more private-led, market-oriented approaches. The agricultural reform agenda will propose gradual, targeted changes, through regional and commodity-specific pilots, for instance, that could be supported by WBG-funded operations.

8. To release land and stimulate diversification, the productivity of existing crops needs to increase, especially of cotton where yields have stagnated (*cf.* Figure 1). There is significant untapped potential for productivity gains and sustainable intensification of cotton production in the most suitable agro-ecological areas, while encouraging diversification in less favorable areas. This could lead to a redistribution of arable and irrigated land to other high value and job intensive crop and livestock production. Partial liberalization of wheat production and marketing led to a dramatic increase in yields, while cotton yields have stagnated over the past decade (*cf.* Graph2). Despite recent equipment modernization, most ginneries are still using outdated, even obsolete equipment leading to low outturns averaging 33 percent, far below the 38-39 percent industry standard. Addressing structural inefficiencies in cotton production, processing, and marketing will establish the right market incentives to help farmers close this double productivity gap.

9. The recently agreed agricultural reform plan²³ recognizes the need to improve agricultural efficiency by tackling specific issues in the cotton value chain and by establishing appropriate market-driven incentives. Liberalizing agricultural production, progressively demonopolizing key technical and financial support services, and gradually replacing the cotton quota system by appropriate market incentives will encourage farmers to increase productivity and diversify, while stimulating innovation and efficiency through private investment. A more efficient cotton production system based on market incentives designed to intensify and mechanize, will at the same time lower the demand for labor and thus eliminate the risk of forced labor.

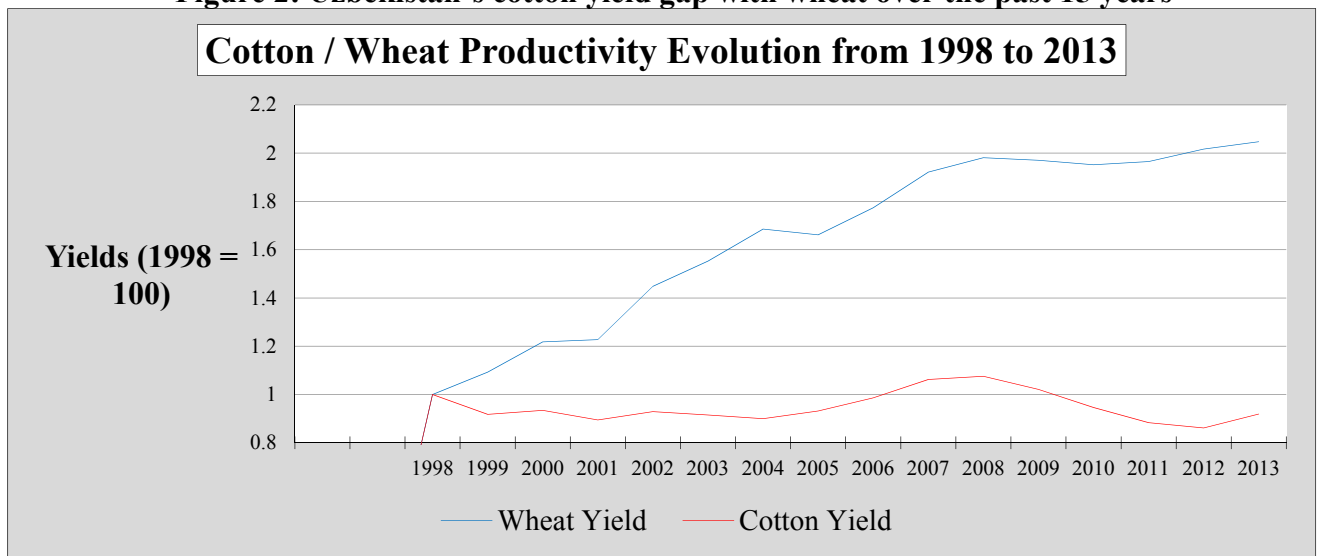
²³ *Action Plan for Improving Labor Conditions, Employment, and Social Protection of Workers in Agricultural Sector in 2016-2018*”

Figure 1: Uzbekistan's cotton yield compared to other cotton producing countries



Source: International Cotton Advisory Committee, World Cotton Interactive Database

Figure 2: Uzbekistan's cotton yield gap with wheat over the past 15 years



Source: International Cotton Advisory Committee and Uzbekistan State Committee on Statistics

8. Aligned with the government’s plan to improve efficiency in agriculture, the CPF will support Uzbekistan’s cotton reform agenda with the actions summarized below:

- Promoting an **efficient use of natural resources** by stimulating sustainable intensification of cotton production and diversification by:
 - **Liberalizing agricultural production** through greater flexibility to farmers in farming decisions (land use, choice of crops, cropping techniques, inputs use, marketing channels, *etc.*)
 - Progressively **de-monopolizing key agricultural support services**, especially input supply (agro-chemicals, fertilizers, seeds), credit and insurance
 - Stimulating **competitive enterprise-based provision of mechanization services** to allow farmers to access the most efficient and suitable equipment
 - Closing the productivity gap through technology dissemination and **demand-driven research and extension**
 - Encouraging diversification to high value, less water-intensive crops
 - Stimulating **livestock and fodder** production.

- Promote **efficient use of government resources** to stimulate competitive markets, enable more remunerative prices for farmers, increase incomes, and reduce the cotton fiscal burden, through the following actions:
 - **Gradually transforming the government’s role** from direct involvement in production, processing and marketing to coordinating, enabling, and facilitating farmers’ and private sector investments.
 - **Stimulating competitive markets** for agricultural produce and promoting private agro-businesses across the spectrum from micro-, small- to large-market oriented enterprises.
 - **Revising the agricultural tax and subsidy system** to minimize distortions in farming decisions and attract private investments.
 - **Stimulating private investments** for increased efficiency through innovations in processing and marketing and for increased value-addition in textile garment production (while ensuring decent working conditions for predominantly female workers).
 - Closely **monitoring cotton sector reforms** to ensure evidence-based policy adjustments and identify support to be provided to farmers and private investors in terms of capacity building, investments, regulation.

- Promote an **efficient use of labor resources** to prevent the risk of forced labor through:
 - Effective **labor policy** and inspection
 - Labor **market analysis** and targeted mechanization
 - Labor **market stimulation** through piloting market-based labor recruitment

9. To improve the efficiency of agriculture, the government recognize the need to attract private investment to introduce innovation, increased value-added and generate quality employment. Private agribusiness enterprises have the potential to lower costs and expand production of agricultural raw products into higher value-added activities that involve more skilled and technology-intensive

production. Private investments in agro-production, agro-processing industry and supply chain development are essential to stimulate a private sector-led agricultural transformation by introducing market-led innovations in production. Introducing private investment will be the main driver of agricultural modernization in Uzbekistan, especially the cotton sub-sector. IFC financing to private investors in textiles will be an important driver and incentive to pilot market-based innovations in service provision and input delivery, in cotton processing and marketing, and in using best international social and environmental practice for sustainable cotton production, while attracting more private investors.

Annex J: CITIZEN ENGAGEMENT AND GENDER MAINSTREAMING

A. Citizen engagement

Situation analysis

1. While citizen engagement in Uzbekistan is constrained by limited access to information and insufficient channels for participation, several changes made to the legal framework in 2014 could modify relations between the state and civil society. For example, the Regulation on the Procedure for State Registration of Non-Governmental and Non-Commercial Organizations established a simplified process and reduced the complexity and frequency of reports required by the Ministry of Justice, but it also introduced procedures to block foreign funding and a requirement for foreign non-governmental organizations (NGOs) to seek re-registration. Also in 2014, the President signed a Law on the Introduction of Amendments to the Constitution aimed at strengthening good governance, which may enable new processes for citizen participation. Meanwhile, a Law on Openness of Activities of Governmental Bodies requires enhanced transparency and accessibility to information about government actions²⁴; and a Law on Social Partnerships creates a framework for cooperation between government bodies and civil society organizations (CSOs) by allowing for the establishment of public funds and public commissions at the local level. While the impact to date of these regulatory reforms is unclear, they may provide an opportunity for community-driven development interventions and hybrid public-private social service provision that could enhance stakeholder participation in local development. They may also improve access to information on the functions and services of government.

2. Despite the constraints on citizen engagement and civil society, some actions or initiatives are possible at the local level. In this context, traditional bodies such as neighborhood associations (*makhallas*) and kinship networks sustain mutual trust and solidarity, though they are dominated by mostly male-controlled structures and decision-making. While the constitution provides for rights of association and assembly, implementation is weak, with few instances where citizens are able or willing to dialogue openly with each other or with government officials. Moreover, truly independent CSOs are few and far between. Nevertheless, local communities have come together in the context of WBG-financed operations to participate in planning, capacity building, and decision-making.

3. The government is keen to improve its responsiveness and adopt mechanisms which help tackle gaps in service delivery. Social impact assessments in several sectors suggest that the quality of service delivery is poor but can be improved with active engagement by users. A water and sanitation poverty and social impact assessment, for instance, noted that access to drinking limited, that sanitation was underdeveloped, that costs of improving water and sanitation services were high (especially in small towns and rural areas), but that consumers were willing to pay for improved services. The preliminary findings of a poverty and social impact assessment on energy services are similar. However, there have to date been only a few upstream engagements and consumer feedback mechanisms that would help improve access to, and quality of services. Capacity is limited and attitudinal change is needed to promote action in sectors where the user is closest to the service

²⁴ The most notable provisions include, for example, that all formal and informal meetings of government bodies shall be open to the public (except those specifically identified in legislation); the law defines information that is to be open to the public more broadly than in the past; and information about activities of government bodies must be provided to journalists within seven days and to the public within 15 days after receipt of a request for information.

provider (e.g. education, energy, health, water and sanitation), with the aim of triggering immediate visible improvement in services. The government's interest in improving efficiency and ensuring stability, especially in urban areas, signals that agencies are open to adopting instruments that provide early warning (e.g. blackouts, leakages) and enhance efficiency (poorly performing service providers).

Opportunities for engagement

4. The engagement of citizens in government efforts to improve service delivery will need focused support, but is in line with government priorities. Global and regional evidence proves that community engagement is a crucial element of improved service delivery through more informed decision-making that reflects the needs of users and better monitoring of the performance of public and private service providers. In conjunction with efforts to enhance transparency and improve citizen access to information, action plans should be developed in targeted sectors to ensure citizen, user and/or beneficiary engagement in project identification, preparation, as well as the successive stages of implementation. Entry points have been identified in four key sectors:

- *Education:* To transform the levels of student and parent engagement in schools, mechanisms for communities/users to engage in decision-making and feedback can be tested as part of the Ministry's efforts to strengthen information and information management. In higher education, there are opportunities to test student feedback mechanisms to improve dialogue in higher education institutions.
- *Water supply and sanitation:* Improving communications between consumers and service providers is essential for improved service delivery. Water authorities need to inform consumers about water supply schedules and establish systems for receiving and responding to consumer feedback (e.g. complaints about water quality, broken pipes, etc).
- *Energy:* Similarly, energy sector reforms should be based on consultations with consumers and include efforts to assist them in organizing to engage in a more structured manner. Project initiatives related to introducing metering of electricity and/or gas should be accompanied by mechanisms that enable consumer feedback and effective supplier action.
- *Irrigation:* There is significant scope for better performance monitoring of local irrigation water governance, including water user engagement and the local factors that influence this engagement. To build trust, efforts are needed to encourage water measurement that reflects actual consumption based on need (rather than preferred crop allocation preferences), to disclose data regularly to users, and to engage users in monitoring and evaluation.

5. The introduction of an e-governance Master Plan makes e-government tools mandatory for public bodies, but they need more support to optimize citizen feedback. All ministries are linked to the MyGovUz portal, where citizen complaints can be registered and channeled to respective ministries. Some have experimented with phone-based complaints—e.g. the Ministry of Labor introduced a hotline for quality of services provision, outsourced to a professional call center company. The authorities' interest in e-government, the high penetration of mobile and internet services, as well as high levels of literacy, together present a significant opportunity for developing IT-enabled citizen engagement, introducing relatively low-cost solutions, applications, and crowd-sourcing platforms. There is also a need to enhance the demand-side through awareness and trust-building initiatives for users, as well as efforts to ensure that the marginalized can also enjoy e-government benefits.

6. Grievance redress mechanisms should be developed to ensure that they are functional, transparent and responsive, and where appropriate, strengthen government systems. WBG-financed projects should include mechanisms to which beneficiaries and citizens can turn to register any complaints on *all* issues. Where possible, they should support the institutionalization of grievance redress in relevant ministries. There are plans to pilot this approach through upcoming projects on Cadastre and Property Registration and Higher Education where grievance redress mechanisms of the implementing agencies concerned would be assessed as part of implementation, with a view to strengthening and institutionalizing effective complaints handling systems, or identifying and recommending alternatives.

B. Gender Mainstreaming²⁵

Situation analysis

7. Addressing gender inclusion will be key to meeting the country's development objectives in a more challenging environment. While the legal framework for gender equality and women's rights is relatively strong, its practical day-to-day implementation—given the prevalence of traditional patriarchal stereotypes and values with respect to the role of women in society—needs strengthening. Women are under-represented in government decision making (only 6.5 percent of senior government officials, but 31.2 percent of middle level officials). In the national legislature, due to a 30 percent quota for women candidates in elections, the share has increased to 16.4 percent in 2014. In education, while primary school enrollments are similar for girls and boys, disparities emerge after Grade 9 affecting girls over 15 years old and the gender gap is noticeable at the tertiary level. In 2014/2015, only 37.5 percent of university students were female. Low enrollment is caused by cultural, economic, and traditional barriers, including the relatively early age of marriage and parents' tendency to prioritize boys' education over girls. Young women often self-select into less technical professions and those associated with traditional gender roles, such as nurse, teacher, care provider, which limit their earning potential as these professions tend to be lower paid. Female labor force participation at 51 percent is above the average of lower middle income countries (38 percent), but well below that of OECD countries. Reproductive health and family planning programs tend to focus on women only, although men are at higher risk for HIV infection. However, life expectancy is higher for women than men, 75 vs. 71, while the retirement age is lower: 55 vs. 60. Due to lower salaries and shorter working life spans, women's pensions are significantly smaller than men's and thus the likelihood of poverty for older women is higher.

Opportunities for engagement

8. Explicit focus on rural women is required to offset the potentially negative social effects of agricultural modernization. Agricultural modernization will affect rural women, who comprise a large share of unskilled agricultural workers, disproportionately. Comprehensive efforts to provide alternative employment opportunities would include financing of innovations in micro-business, giving access to higher-value markets, providing access to credit, business support and training services. These will also provide access to loans for *makhalla* committees for financing public infrastructures, which would allow women to increase their income (*e.g.* organizing child-care services, implementation of innovations in water supply, and other public goods projects).

²⁵ This section draws on the Uzbekistan Gender Assessment carried out by the Asian Development Bank in 2014, on National Statistical Committee information materials, and on WBG publications, *e.g.* Uzbekistan: Modernizing Tertiary Education, June 2014.

9. Interventions to address access barriers for women should be based on research evidence and mainstreamed across the WBG portfolio in Uzbekistan. Research on barriers to labor market participation and entrepreneurial activities—including social and cultural norms but also looking at human capital, financial and legal literacy, access to land rights, financial and legal resources, as well as information and networks—would be undertaken to inform specific interventions. Social norms related to women’s academic, entrepreneurial, and professional aspirations need to be addressed in a targeted manner, linked to specific project interventions. For example, public awareness campaigns would encourage increased female enrollment in higher education, with particular focus on technical and business subjects. Projects in energy, transport, and ICT should consider introducing enabling measures for women to enter these mostly male sectors. The Project on Cadaster and Property Registration will produce gender-disaggregated data on property ownership, as well as barriers to access to property registration services for women, as well as other social vulnerable groups. In line with the stepped up approach to citizen engagement, all sectors would work to ensure equal participation and engagement of women as well as men in the planning, implementation and monitoring of project interventions.

10. Separate attention to the needs of women is required in interventions to strengthen citizen engagement. In order to ensure that all citizen have equal opportunities to have their voices heard, each citizen engagement intervention should take into consideration the specific constraints faced by women, such as lack of awareness about legal rights, mobility, family care responsibilities, social and cultural norms, power imbalances in communities, *etc.* This would be achieved through developing project-specific gender mainstreaming strategies, based on targeted social assessments: for example, a proposed higher education project would develop an information campaign to increase female enrollment in technical disciplines, while the horticulture project will introduce measures to facilitate rural women’s access to credit. For all relevant projects, gender indicators will be included in annual reports and discussed portfolio review meetings. An analysis of barriers to income generation and formal employment by rural women currently underway, will inform comprehensive interventions to improve their livelihoods and strengthen their participation in decision-making at the local level.

Annex K: COUNTRY PUBLIC PROCUREMENT SYSTEM

1. While the government has introduced various public procurement reforms through various decrees and resolutions, serious challenges remain. The 2012 Country Integrated Fiduciary Assessment and the 2013 Public Expenditure Financial Accountability identified the following weaknesses in Uzbekistan's public procurement system: (a) no unified legislative framework; (b) inefficient and non-transparent procurement practices; (c) no single institution with oversight or regulatory responsibility; (d) weak capacity for reviewing complaints by bidders; (e) complex arrangements for the review/approval of bid evaluation reports, leading to low accountability and delays; (f) no comprehensive anti-corruption measures; and (g) low skills/capacity of the staff handling public procurement at all levels. Three years, these weaknesses persist.

2. Other major procurement issues experienced in implementing the WBG-financed portfolio include the uneven quality of bidding documents and bid evaluation reports and, in particular, the contract registration requirement. The Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) registers all contracts for goods, works and services awarded to international firms—a process that is lengthy (averaging four months) and delays procurement and overall project implementation. Furthermore, it discourages many international firms from participating in international competitive bidding in Uzbekistan. While the government appears now to be committed to improve the procurement process, there is an urgent need for action to minimize delays caused by contract registration.

3. To meet these challenges, the government has elaborated a ten-year public procurement development strategy (2016-2025), which is expected to be finalized in the near future. The goals are: (a) continuous development of the legislative and regulatory framework, including a public procurement law, by-laws, and implementation manuals and guides; (b) increased use of new technology and approaches to enhance efficiency, transparency, and value for money; (c) availability of adequate human resources skilled in different aspects of public procurement; (d) well-functioning procurement control and monitoring system; and (e) effective and well-organized institutions to plan and conduct procurement procedures and conclude, manage and monitor public contracts.

4. The WBG has provided—and will continue to provide—technical assistance to support government efforts to improve its public procurement system. A grant is currently helping finalize the above-mentioned ten-year public procurement strategy. WBG future support will help the authorities implement the following priority areas of the strategy: (a) drafting a public procurement law; (b) expansion of e-procurement; (c) procurement human resource development; (d) control and monitoring of procurement; and (e) procurement system administration. Improvements in these areas, in addition to making public procurement more efficient, fair, and transparent, will also increase opportunities for the use of the country systems in Uzbekistan.

Annex L: SUMMARY OF CPF CONSULTATIONS

CPF consultations were held in ten of Uzbekistan's twelve *oblasts* and the city of Tashkent during October 13-23, 2015 and online consultations took place from October 6 to November 3, 2015. Participants included representative of civil society, non-governmental organizations (NGOs), the private sector, project beneficiaries, and regional and local governments. They all expressed appreciation for WBG support and displayed keen interest in sharing their views on the proposed CPF and program. The most important issues discussed were as follows:

- Uzbekistan has achieved good results in economic development, but job creation is vitally important to sustain growth and address the needs of the poorest segments of the population. Participants expressed strong support for the CPF's principal objective—to help the government create new productive jobs through private sector development and modernization of the agricultural system. However, some concerns were voiced about the feasibility of creating such a large number of jobs (500,000 annually), especially in labor-intensive industries. Participants shared specific proposals on the need for a study about matching demand for and supply of labor, and about job retention practices, vocational training centers, and training programs for new professions especially those related to the latest technologies.
- Participants agreed about the potential of agriculture and agro-processing to create jobs through investments in value chains and diversification. They confirmed that there was significant untapped potential in fruit, vegetables, and livestock development that could generate growth and employment. There was a need to accelerate the transformation of agriculture to fully capture this potential by promoting more efficient production of cotton and wheat, *i.e.* higher yields, and by allocating more land and water to new alternative crops and livestock.
- Private sector representatives recognized several positive changes in the investment climate. Participants were nearly unanimous in feeling that Uzbekistan has the potential to be an excellent market – the population size, young age, location, and natural resources were all cited as long term drivers of competitiveness. However an attractive market with a largely manageable investment climate is being undermined by fiscal and monetary policies. There was a remarkable level of consistency in the feedback from private firms – both in terms of the market potential of the country as well as in the constraints that are limiting greater investment. Firms generally feel that the investment climate is improving over time and there is government commitment to continuing such reforms, but that the real constraints to growth are in the areas of (i) currency controls and convertibility; and (ii) fiscal policies that do not incentivize firm growth and rather lead to a high degree of informal employment. The private sector would like to see policies put in place that incentivize long term firm growth from small to mid to larger size firms as well as incentivizing formal employment.
- Given the large range of private companies and sectors represented in the consultations throughout the country, there were many issues raised as limitations to greater investment and job creation. However, the following three issues were coming up in nearly all of the consultations:

- a) Convertibility and cash management are the leading obstacles to increasing private investment. The biggest issue by far that was raised in consultations is currency convertibility and multiple exchange rates. The limitations on convertibility give rise to multiple exchange rates and erode competitiveness. Lack of convertibility is the critical issue for foreign investors servicing the domestic market due to inability to pay dividends. Two of the largest employers in Uzbekistan, both owned by foreign shareholders, said that this policy has led them to suspend all new investment, despite seeing profitable investments that they would otherwise be making.
 - b) Tax issues are at the core of competitiveness and job creation. Most of the participants acknowledged progress by the government in improving both tax administration and tax policy. Key reforms cited included the automation of filing and the reduction in the unified social payment (from 25% to 15% for the employer contribution). However, the structure of the tax system remains highly skewed toward businesses operating under a simplified regime rather than a general regime, which affects growth and hiring as well as limiting the utility of instruments such as VAT.
 - c) Despite progress, some investment climate issues are still problematic. The issue of the regulatory burden came up in most discussions, although usually as a ‘nice to improve’ rather than a binding limitation. Firms recognize the improvements in the investment climate and feel that the momentum on e-governance will continue to lead to improvements.
- Rural entrepreneurs also mentioned poor infrastructure, insufficient warehouse and cold storage capacity, irregular electricity supply, as well as poor extension services.
 - Representatives of international NGOs actively involved in online consultations urged the WBG to focus on reforms that would ensure agriculture contributed to the overall development of the country, rather than benefitting only a few vested interests. They also requested that WBG financing be provided only when the government was fully committed to eliminating risks of forced labor and when a monitoring system was in place.

The above feedback contributed to the selection of strategic focus areas for WBG engagement and the CPF’s specific objectives.