

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Uzbekistan	Project Title:	Economic Management Improvement Program (Subprogram 1)
Lending/Financing Modality:	Policy-Based Lending	Department/Division:	Central West Asia Department/ Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: general intervention
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>Uzbekistan is undertaking a set of reforms in the following priority areas articulated in its national development strategy, 2017–2021: (i) governance and public administration; (ii) the rule of law and the judicial system; (iii) economic development and liberalization; (iv) social development; and (v) security, tolerance, and foreign policy. Preceding the reforms in 2017, the country experienced stable economic growth, with average gross domestic product (GDP) growth of 8.1% per annum during 2010–2016 despite many economic shocks. These shocks included the financial crisis in 2007–2009, the drastic price decline of export commodities in 2011–2014, and the spillover effect of the GDP contraction of the Russian Federation in 2014–2015. The sustained growth was broadly inclusive, leading to reduction of the national poverty rate from 17.7% to 12.8%, and contraction of the Gini coefficient from 0.30 to 0.28 in 2010–2015.</p> <p>Reflecting the national development priorities, the Asian Development Bank fully supports Uzbekistan through its core operations designed under its country operations business plan (COBP) for Uzbekistan, 2018–2020.^a The COBP is premised on the strategic focus of the country partnership strategy for Uzbekistan, 2012–2016^b (i.e., the country's transformation into a modern industrial and service economy through sustained and inclusive growth, poverty reduction, and expanded regional cooperation), which reflects the socioeconomic targets articulated in the updated welfare improvement strategy (the national poverty reduction strategy), 2013–2015. In addition, in response to the country's need for sustaining stable economic growth, the COBP integrated the key drivers of change into the operational assistance, including private sector development, governance, knowledge management, gender equity, and climate change and the environment.</p>
<p>B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence</p> <p>1. Key poverty and social issues. Uzbekistan is the leading country in Central Asia in terms of economic expansion, with GDP growth of 7.8% (2016) and the long-term priority of doubling its 2015 GDP size by 2030. The government priority for the initial decade of the country's independence (1991–2001) was to improve and sustain social welfare and stability. The government's focus gradually shifted toward economic and social development (2001–2011), and economic modernization and diversification (2011–present). The country's robust and sustained growth was associated with the government's macroeconomic management and sustained investments in industry and infrastructure. As the key driver of GDP growth, the annual investments in fixed capital gradually increased from 22.8% of GDP (2011) to 24.8% of GDP (2016), primarily because of the implementation of an industrial policy that comprised two key state programs: (i) modernization of industry and (ii) development of infrastructure.</p> <p>Although growth was broadly inclusive, the impact of economic growth on poverty reduction was modest—the poverty elasticity to GDP per capita growth was low (0.5), indicating that while GDP per capita expanded by 1.0%, the share of the population under the national poverty line declined by merely 0.5%. Income from labor activities and small businesses remain, presumably, the key drivers of poverty reduction and rapid growth of the real per capita income. The share of labor income in the population's income structure increased from 69.4% (2011) to 72.8% (2015). In addition to periodic nominal wage increases, remittances of migrant workers contributed to the earnings from employment—the annual amount of remittances from the Russian Federation (the key employer of migrant workers) averaged \$3,942 million during 2010–2015, reaching a peak of \$5,842 million in 2013. Income generated through small businesses steadily increased as a share of income composition, from 49.0% (2011) to 52.4% (2015). This was the result of small businesses increasing their share of (i) employment from 74.3% (2010) to 77.9% (2015) and (ii) GDP from 52.5% (2010) to 56.5% (2015). Thus, the government took many steps to facilitate a conducive business environment for small businesses. Uzbekistan improved its ranking in the World Bank's ease of doing business index from 150 out of 183 economies (2010) to 87 out of 189 (2015), and further down to 74 out of 190 economies in 2018. The improvements were especially noticeable in business start-up procedures.</p> <p>To continue its efforts in improving the business environment and liberalizing and diversifying the economy, in 2017 the government implemented the key reform measure of foreign exchange unification and price adjustments of utilities supplied by state-owned enterprises (SOEs). These market reforms propelled the official consumer price index from 5.7% (2016) to 18.9% (2017). Price hikes of food (15.9%) and non-food products (16%) remained drastic as of the end of 2017. To mitigate the adverse impact of market liberalization reforms on vulnerable households, the government initiated social programs and established special funds to (i) stabilize foodstuff prices in the domestic</p>

<p>market, and (ii) provide the unemployed (the estimated official unemployment rate was 5.0% as of 2017) with temporary jobs in public works. In addition, the government announced an average 15.0% increase of wages, stipends, and retirement payments from December 2017. The proposed additional budget support targets the lowest income quintile of population during 2018–2020 (12.8% of the population was below the national poverty line as of 2015). However, all these initiatives require adequate fiscal space to facilitate their implementation without risking fiscal sustainability.</p> <p>2. Beneficiaries. The program will directly benefit—through additional job creation and improved service delivery quality—the domestic, agricultural, industrial, and commercial clients of public goods and services provided by SOEs. The program will also help expenditure targeting for the vulnerable groups.</p> <p>3. Impact channels. The program will help the government to create fiscal space that can be invested in health, education, and targeted programs for the poor. The program will help maximize the benefits that private management and improved corporate and sector governance can bring to SOEs in terms of economic efficiency and financial feasibility. This is expected to improve access to public utilities. The program will boost economic opportunities through increased private sector involvement through public–private partnerships.</p> <p>4. Other social and poverty issues. Other key social and poverty issues in Uzbekistan include lack of access to basic services, inadequate social protection programs, unemployment, lack of economic opportunities, low gender inequality index, and gender disparities in labor force participation. Other donors, development partners and civil society organizations are also working to address poverty issues in the country.</p> <p>5. Design features. The program does not have targeted interventions for poverty reduction. However, the program will support implementation of targeted expenditure programs for the vulnerable groups.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reforms. The support for augmenting and sustaining development financing will have an impact on income poverty, especially in a situation of rising inflation. The program’s special emphasis on better expenditure targeting through linking the medium-term budget framework (MTBF) with actual budget allocations is clearly geared toward protecting the poor and other vulnerable groups. The program will help achieve the government’s development objectives through the proposed reforms, which will help strengthen economic management, facilitate better public financial management, support improved performance of SOEs, and create effective financial intermediation facilities. These reforms will primarily work through two channels: (i) there will be additional fiscal space to augment public investment with a medium-term focus and better outcome orientation, and the improving efficiency of public investment will have a crowding-in impact on private investment; and (ii) proposed policy reforms under the program will also make additional financial resources available for private investment. Improved economic management, and consequent macroeconomic stability, is an important driver of foreign direct investment. Augmenting private investment is essential to sustain high growth with additional job opportunities. Thus, it is expected that the program will have significant indirect benefits for the poor and vulnerable.</p> <p>2. Impacts of policy reforms on vulnerable groups. The program does not foresee any impacts on vulnerable groups.</p> <p>3. Systemic changes expected from policy reforms. The long-term impacts of the programmatic approach will be more efficient SOEs, and privatization of selected SOEs. This is expected to contribute to economic growth through the creation of increased economic opportunities for all segments of the population. The reforms proposed under the programmatic approach will contribute to (i) improved public spending capacity, particularly on health, education, and other social services; (ii) improved quality of public goods and services produced by SOEs; and (iii) increased private sector involvement, leading to additional employment opportunities.</p>
<p style="text-align: center;">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Participatory approaches and program activities. The main stakeholders of the program will be the management and staff of SOEs, regulatory authorities, government ministries, and the general public. The reforms related to data dissemination and improved budget preparation will improve transparency and understanding of the reform program. Given the scope and design of the program, it will be difficult to ensure the participation of the poor.</p> <p>2. Civil society organizations. The program will promote dialogue between the government, management of SOEs, and labor organizations to ensure that labor issues are adequately addressed.</p> <p>3. The following forms of civil society organization participation are envisaged during program implementation, rated as high (H), medium (M), low (L), or not applicable (NA): M <input checked="" type="checkbox"/> Information gathering and sharing M <input checked="" type="checkbox"/> Consultation L <input checked="" type="checkbox"/> Collaboration L <input checked="" type="checkbox"/> Partnership</p> <p>4. Participation plan. Given the scope of the program, no participation plan has been developed.</p>
<p style="text-align: center;">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: no gender elements</p> <p>A. Key issues. Uzbekistan’s Gender Inequality Index ranking of 57 (as of 2016) was low in relation to some neighboring countries, and it had a low labor force participation rate for females (48.3%) compared to males (76.2%).^c Thus, targeted expenditures on health under the MTBF and higher employment opportunities in the private sector are expected to improve the country’s Gender Inequality Index ranking. Rectifying these problems becomes all the more challenging if the government is unable to invest effectively (with improved targeting) and adequately in economic and social infrastructure—either directly or through partnerships with the private sector.</p>

<p>B. Key actions. The attached transaction technical assistance will carry out gender analysis of the government expenditure program. This analysis, in turn, will facilitate design of key elements in the MTBF to improve gender targeting under the second subprogram. Thus, gender targeting will significantly improve under the second subprogram with the introduction of a specific policy action in the policy matrix. The proposed policy measures under the program, including the one related to the MTBF, will also help to indirectly improve female participation in the labor force as well as women's reproductive health, leading to lower gender inequality. Moreover, the attached transaction technical assistance will create a sex-disaggregated database of private enterprises (primarily small and medium-sized enterprises).</p> <p><input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>	
<p>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p>	
<p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>	
<p>1. Key impacts. There will be no land acquisition and no involuntary resettlement impacts.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other Actions.</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
<p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>	
<p>1. Key impacts. No impacts on indigenous people.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Indigenous peoples plan elements integrated in program with a summary</p> <p><input checked="" type="checkbox"/> No action</p>	
<p>V. ADDRESSING OTHER SOCIAL RISKS</p>	
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the program for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p>L<input checked="" type="checkbox"/> unemployment L<input checked="" type="checkbox"/> underemployment L<input checked="" type="checkbox"/> retrenchment L<input checked="" type="checkbox"/> core labor standards</p> <p>2. Labor market impact. The program does not support labor retrenchment, and the government does not have a current plan for labor retrenchment.</p>	
<p>B. Affordability. The program could have a limited direct effect on affordability. Restructuring of SOEs might lead to the adjustment of tariffs and fees. The expected efficiency gains from restructuring will also enable lower prices and improved quality of public services in the medium to long term. The net outcome cannot be predicted at present.</p>	
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. Not applicable.</p>	
<p>VI. MONITORING AND EVALUATION</p>	
<p>1. Targets and indicators. Given the scope and design of the program, there are no specific indicators targeting the poor.</p> <p>2. Required human resources. Given the policy-based lending modality, monitoring and evaluation will be carried out by Asian Development Bank staff.</p> <p>3. Information in the project administration manual. Not applicable.</p> <p>4. Monitoring tools. No program-specific monitoring tools will be administered. However, compliance with the policy matrix will serve as a performance-measuring tool.</p>	

^a ADB. 2017. *Country Operations Business Plan: Uzbekistan, 2018–2020*. Manila

^b ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila

^c The Gender Inequality Index reflects gender-based inequalities in three dimensions: reproductive health, empowerment, and economic activity. United Nations Development Programme. Human Development Report 2016: Human Development for Everyone—Briefing note for countries on the 2016 Human Development Report: Uzbekistan. http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/UZB.pdf