

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB), World Bank, International Monetary Fund (IMF), Japan International Cooperation Agency (JICA), Islamic Development Bank (IDB), and United Nations Development Programme are key development partners and donors of Uzbekistan. The European Bank for Reconstruction and Development, Delegation of the European Union (EU) to Uzbekistan, and International Finance Corporation also closely cooperate with the Government of Uzbekistan. The World Bank's operations cover four strategic themes: (i) improving energy infrastructure and water resources management, (ii) enhancing competitiveness of the economy, (iii) pursuing economic diversification, and (iv) improving access to social services. The World Bank conceived ADB as the key development partner in the implementation of its projects. As an example of its cooperation with ADB, the World Bank closely coordinated financing of an advanced electric metering project. JICA's official development assistance, technical cooperation, and grant projects have concentrated on key areas covering transport and energy, human resource development, agriculture, rural development, and health care. Ongoing official development assistance loans encompass four projects in energy (\$1,145 million), one project in transport (\$220 million), and one project in water resource management (\$100 million). During 2012–2016, IDB approved financial support (\$972 million) for 13 key projects in agriculture and natural resources, education, energy, health, transport, and rural housing. Financing for advanced electricity metering and rural housing was closely coordinated with ADB. The UN agencies work in four areas: economic well-being, social services, environment, and governance, with indicative resources totaling over \$100 million. ADB coordinated technical support with the UN agencies for formulation of the government's medium-term development strategy, e-government reform, and introduction of energy efficiency in rural housing.

2. In the energy sector, ADB has worked closely with IDB, JICA, and the World Bank. The focus has been on improving the financial viability of the power sector, energy efficiency, expansion and modernization of generation and transmission assets, and financial management reforms. The World Bank has provided technical and financial assistance for the improvement of transmission capacity and energy efficiency, including reduction of commercial losses and improvement of the tariff collection rate.

3. Before 2018, there was little demand from the government to support the public finance sector. ADB had only one investment loan to support the Public Finance Management Reform Project from 2008 to 2012.¹ The focus of the project was to support the establishment of the Treasury in the Ministry of Finance and the development of a government financial management information system. The treasury system in the Ministry of Finance was established and substantial progress was made in improving controls over budget expenditures, including closing down various accounts of budget organizations and establishing a treasury single account. The United Nations Development Programme also provided technical support to do preparatory work for the introduction of a medium-term budget framework (MTBF) methodology, and public accounting system reforms.² Apart from these two initiatives, there was no support from Uzbekistan's development partners and donors for public financial management.

¹ ADB provided a loan of \$20.7 million from its ordinary capital resources for the Public Finance Management Reform Project in Uzbekistan and an associated technical assistance grant of \$600,000. ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Public Finance Management Reform Project*. Manila.

² http://www.uz.undp.org/content/uzbekistan/en/home/operations/projects1/poverty_reduction/budget-system-reform-in-Uzbekistan.html

4. The proposed program is the first ever loan, based on the programmatic approach, to Uzbekistan provided by ADB that deals with various areas of economic management including public financial management and reforms in state-owned enterprises (SOEs). The proposed policy-based loan will support efforts made by the Government of Uzbekistan to identify and implement reforms covering (i) improved transparency and accountability of overall state statistics and macroeconomic indicators; (ii) improvement of public finances through regular evaluation, introduction of internal audit, and introduction of medium-term budget framework; (iii) improved financial intermediation, especially for the private sector; and (iv) improved corporate governance, accounting, and debt management of SOEs, with a specific focus on JSC Uzbekenergo.

5. The World Bank is currently processing a budget support program (development policy operation of \$500 million) for Uzbekistan—to be approved in 2018. The proposed prior actions are divided across three pillars: (i) foundation for sustainable economic growth and macro-financial resilience, (ii) supporting market creation for private-sector development, and (iii) enabling jobs, and managing social risks.

6. It has been agreed that ADB and the World Bank will cross-refer to the complementary reforms in their respective loan documents. ADB and the World Bank are collaborating in dealing with identifying and implementing reforms to promote improved banking, supervision, facilitate financial transparency in selected SOEs (such as introduction of International Financial Reporting Standards [IFRS] compliant financial statements), and private sector development. The main objective of this collaboration is to introduce complementary reforms and reinforce a concerted reform effort. ADB is also coordinating with the IMF and sharing technical assistance (TA) resources for strengthening data collection, analysis, and dissemination (reform area 1). The Government of Switzerland's is also providing TA resources to finalize the design and coverage of the national summary data page, with the support of ADB and the IMF. Thus, ADB's collaboration spans both program design and policy implementation.

7. The IMF Executive Board recently concluded its Article IV Consultation with the Republic of Uzbekistan with a focus on ensuring macroeconomic stabilization.³ The proposed program seeks to address some issues highlighted in the IMF staff report.

B. Institutional Arrangements and Processes for Development Coordination

8. Partnerships with development agencies involve close dialogue between the government and development agencies through ADB's Uzbekistan Resident Mission. This involves regular meetings with heads of agencies as well as active consultations with the IMF missions. ADB also shares knowledge and discusses possible collaborations in relevant areas of assistance with other development partners and donors. Regular consultations and programming-related meetings are held with the World Bank, the Delegation of the EU to Uzbekistan, JICA, the European Bank for Reconstruction and Development, and other bilateral agencies.

C. Achievements and Issues

9. Currently, there are a few development partners and donors active in Uzbekistan in the area of public resource management. ADB and the World Bank, in cooperation with the IMF, are leading the process and have consulted other relevant stakeholders (including the Delegation of

³ Republic of Uzbekistan: 2018 Article IV Consultation Press Release; Staff Report; and Statement by the Executive Director for the Republic of Uzbekistan. <http://www.imf.org/en/Publications/CR/Issues/2018/05/11/Republic-of-Uzbekistan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-45873>

the EU to Uzbekistan) while designing this policy-based loan. The proposed intervention is especially significant given the ongoing fiscal consolidation initiatives and the effect of the government's September 2017 comprehensive exchange rate reform on prices, which has impacted vulnerable populations and SOEs. The proposed policy actions in the loan are expected to complement the development partners' support for public sector reform, fiscal consolidation, and improved service delivery.

D. Summary and Recommendations

10. ADB will share its experience regarding the implementation of this loan with other development partners and donors on regular basis, especially IMF and the World Bank. These interactions will help firm up strategies for a coordinated approach to public resource management reforms. This is expected to deepen the reform process through the creation of sustainable fiscal space and a focused approach toward service delivery improvements.