ASIAN DEVELOPMENT BANK

Uzbekistan: COVID-19 Active Response and Expenditure Support Program

Project Name	COVID-19 Active Response and Expenditure Support Program
Project Number	54160-001
Country	Uzbekistan
Project Status	Approved
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	Loan 3939-UZB: Covid 19 Pandemic Response Option Ordinary capital resources — US$ 250.00 million Loan 3940-UZB: Covid 19 Pandemic Response Option Ordinary capital resources — US$ 250.00 million
Strategic Agendas	Inclusive economic growth Regional integration
Drivers of Change	Governance and capacity development
Sector / Subsector	Health - Disease control of communicable disease - Health system development Industry and trade - Small and medium enterprise development Public sector management - Public expenditure and fiscal management - Social protection initiatives
Gender Equity and Mainstreaming	Effective gender mainstreaming
Description	The program supports the government's COVID-19 pandemic response plan, of which the ACF is the predominant part, to help mitigate the adverse impacts of COVID-19 on the population's health, incomes, and economic opportunities as well as macroeconomic stability. The outcome will be the COVID-19 outbreak more effectively managed and its adverse social and economic impacts reduced. The outputs will be (i) the COVID-19 response and health system strengthening measures implemented; (ii) affected sectors and businesses supported to prevent job losses from the economic downturn; and (iii) dedicated social safety net funds for social protection and compensation for economic losses of low-income households expanded. The program is aligned with ADB's country partnership strategy, 2019 -2023 for Uzbekistan, especially on reducing economic and social disparities, strengthening economic governance, supporting private sector development, and promoting regional cooperation and integration. ADB's value addition, including lessons learned from crisis lending. The program is based on extensive policy dialogue with the government and development partner coordination. It draws on lessons from ADB's experience with Countercyclical Support Facility loans during different emergency and crisis situations. These lessons are even more pertinent for the COVID-19 pandemic crisis, which requires parallel interventions on several fronts. The lessons include (i) the timeliness of the countercyclical response to stabilize the economy and protect livelihoods; (ii) targeting of social assistance to prevent large-scale unemployment and poverty; (iii) channeling support through the government budget to ensure coordination, and efficient execution and monitoring, of expenditures; (iv) ensuring adequate support for the government's rapidly evolving financing needs without jeopardizing fiscal sustainability; and (v) placing the emergency support within a medium- to long-term development context with flexibility to make changes. The program is part of ADB's comprehensive country assistance, which is aligned with the government's development strategy. It complements the ongoing and proposed policy dialogue and program, project, and technical assistance (TA) pipeline, aimed at improving (i) health systems; (ii) technical and vocational skills; (iii) the enabling environment for private sector development, including SMEs and public private partnerships; (iv) public resource management and SOE reforms; and (v) regional cooperation and integration. ADB's support for strengthening the health sector capacity under the Primary Health Care Improvement Project, a grant of $1.56 million allocated for Uzbekistan to procure medical supplies and equipment under its regional TA for COVID-19, and the proposed emergency assistance loan of $100 million under the COVID-19 Emergency Response Project will complement the program. ADB's overall health sector support is a unique value addition, as it not only helps enhance the testing, diagnosis, and clinical treatment capacity of COVID-19 patients but also strengthens the preventive health system to improve the country's resilience to future public health disasters. Together with ongoing and planned health-related projects, the program will generate a substantial regional public good by strengthening regional cooperation among CAREC countries to control the spread of COVID-19 through sharing of information, medical supplies, and staff for pandemic management and the adoption of WHO-recommended standards and best practices. The program also facilitates regional integration through its support for export-oriented SMEs and cross-border trade in goods and services. ADB's proposed policy-based loans for 2020 will complement the support for SMEs and financial inclusion, financial market development, and SOE reforms in the energy sector. The program implementation will be monitored by an ongoing TA through allocating additional resources. This TA will also support the medium-term public sector reforms including (i) the policy formulation for emergency expenditures and social transfers under the medium-term budget framework; (ii) strengthening investment planning and outcome-based budgeting for health and social expenditures; (iii) developing a formula-based intergovernmental fiscal transfer system in line with local governments' enhanced role in service delivery during disasters; (iv) debt and fiscal risk management; (v) risk-based banking supervision; and (vi) developing suitable financial services in state-owned banks for businesses affected by the pandemic. The proposed Small Business Finance and Rural Financial Inclusion Program will help monitor the program targets through its support for a sex-disaggregated SME and employment database. Alignment with Strategy 2030. The program is fully aligned with ADB's Strategy 2030, particularly the operational priorities on (i) addressing poverty and reducing inequality through mitigating the health impact of the COVID-19, support for SMEs and job creation and expanding social protection for low-income households and those affected by the pandemic; (ii) accelerating progress in gender equality through the expansion of social benefits for women and children; (iii) strengthening institutional capacity and governance for effective public financial management (PFM); and (iv) fostering regional cooperation and integration.

Project Rationale and Linkage to Country/Regional Strategy

Health care system. Uzbekistan's health care system has not handled a pandemic or health crisis of this nature or scale since independence. On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic with serious worldwide implications. Since the diagnosis of the first COVID-19 case in Uzbekistan on 15 March 2020, 4,520 cases have been reported, corresponding to 133 cases per million population with 18 deaths as of 10 June 2020. Although the country has made improvements over the years, the growing number of confirmed COVID-19 cases has placed a strain on the health care system, with the initial diagnosis, prevention, and treatment capacity constrained by shortages of specialized medical staff, facilities, and medical equipment. Even before the strict social distancing measures were initiated, a Special Republican Commission headed by the Prime Minister was set up on 29 January 2020 (Presidential Decree No. 5537) to (i) monitor the pandemic and raise public awareness, (ii) communicate with international organizations, and (iii) procure medicines and equipment to increase the health system preparedness and lower the spread rate of the virus.

Economy. The sharp contraction in global economic activity has severe economic consequences for Uzbekistan. The pandemic has delivered a large external shock to Uzbekistan's economy, with real GDP growth projections falling to 1.5% in 2020 from the pre-COVID-19 forecast of 6% . The economic impact and the knock-on effects on low-income households have been driven by the magnitude and duration of (i) the downturn in Uzbekistan's main trade and investment partners; (ii) the fall in tourism revenues; (iii) domestic business disruptions, particularly SMEs; (iv) the contraction in remittance inflows; and (v) the widening fiscal deficit. The severity of the impact through these transmission channels is compounded by the risks from a second wave of COVID-19. Real private final consumption growth is projected to decline from 6.3% in 2019 to 0.3% in 2020. Real growth in gross fixed capital formation is projected to decline to 4.5% in 2020 from 46.0% in 2019. In 2020, real sector growth is projected at 2.1% for industry (8.9% in 2019) and 0.6% for services (5.5% in 2019), while growth in agriculture will remain stable at 2.6% (2.5% in 2019).

Trade and investment. The trade and investment flows have contracted with the severe downturn in key trade and investment partners. About 40% of Uzbekistan's trade is concentrated among three countries the People's Republic of China (PRC) (17%), the Russian Federation (16%), and Kazakhstan (7%) in 2020 which are projected to experience sharp downturns. Uzbekistan's merchandise exports, which grew at 22.1% in 2019, are projected to contract by 9.5% in 2020. Merchandise imports, which grew at 16.2% in 2019, are projected to contract by 6.7%. The current account deficit is projected to deepen from 5.6% in 2019 to 9.6% in 2020, against the pre-COVID-19 estimate of 4.7% in 2020. Net foreign direct investment is projected to fall to 1.2% of GDP in 2020 from 3.9% of GDP in 2019. Uzbekistan has been insulated from the sell-off in global financial markets due to low portfolio investment in its underdeveloped capital markets and limited exposure to world financial markets. The foreign exchange reserves ($30.5 billion as of March 2020), with 56.7% held in gold ($17.3 billion), and rising gold prices have provided a cushion against the pressures for depreciation. Uzbekistan's currency (sum) declined by 6.7% against the United States dollar from 1 January 2020 to 15 April 2020 compared with depreciation of more than 10% for the Russian ruble, Kazakh tenge, and Kyrgyz som.

Tourism. Tourist arrivals and revenues will fall sharply in this key growth sector. The number of visitors to Uzbekistan increased from about 1 million in 2016 to more than 6.4 million in 2018 and nearly 4.9 million in the first 9 months of 2019. This number of visitors was expected to rise to more than 7 million by 2025, with annual foreign currency earnings reaching $2 billion. The direct and indirect economic activity arising from tourism and travel related services reached about 4% of GDP in 2019. In the first quarter of 2020, tourist arrivals to Uzbekistan fell by 12% and tourism revenues are expected to decline by $700 million in 2020.

Small and medium-sized enterprises. With sales at a standstill and cash reserves depleted, SMEs have been hit hard. SMEs have been growing in Uzbekistan, providing 56.5% of GDP in 2019 and contributing 35% of industry, 84% of retail trade, and 52% of services. In 2019, SMEs' share of exports was 28.7%, their share of imports was 54.2%, and their share of investment was 47%. SMEs account for 37% of formal sector employment and 78% of formal and informal employment combined. As of end April 2020, 13,000 public catering enterprises, 45,000 retail enterprises, 19,000 service enterprises, and 7,000 transport enterprises have stopped operating and/or lost significant revenue. About 80% of individual entrepreneurs have suspended their activities. Job losses caused by business closures carry the risk of large-scale unemployment, leading to reduced incomes and even social distress.

Remittances. Slowdowns in the Russian Federation and Kazakhstan are projected to result in a 40% fall in remittance inflows in 2020 compared with 2019. About 13% (2.5 million) of Uzbekistan's working-age population works abroad, with 85% in the Russian Federation. Based on the Central Bank of Uzbekistan (CBU) data, of the net remittance inflows, which averaged $5.11 billion in 2018, $3.96 billion was received from the Russian Federation and $320 million from Kazakhstan. A recent World Bank survey shows that the share of households with members working abroad fell to 13% in April 2020 from 17% in April 2019. Among those still abroad, active employment fell to 73% of migrants in April 2020 from 88% in April 2019. The median remittance transfers also fell by 21%.

Poverty. Without social and economic support during the pandemic, the growing job losses, including for women, could reverse the gains made in poverty reduction since 2005. The World Bank estimates that an additional 448,000 people could fall into poverty, and the poverty rate (based on $3.20 per person per day in purchasing power parity terms) could increase to 8.7% in 2020 against the pre-COVID-19 projection of 7.4%. With 150,000 returning migrant workers and job losses from business closures, the unemployment rate is projected to increase to 16.5% in 2020 (from 9.4% in 2019 and against the pre-COVID-19 projection of 8.9% for 2020). The Ministry of Employment and Labor Relations estimated that the number of unemployed citizens (including returning migrant workers) had reached more than 1.5 million as of 17 April 2020. From March to April 2020, the share of households with at least one member working fell from 85% to 43% (footnote 20). Unemployment will be higher in the informal economy, which accounted for 58% of total employment in 2019. Economic hubs in the Ferghana, Andijan, Namangan, and Samarkand regions lead in informal employment. The fall in remittances will contribute to increased poverty for low-income households. The median per capita income combined from all sources fell by 38% in April 2020 against March 2020, with a decline of 46% in urban areas and 37% in rural areas. Declines in income have been largest among the self-employed (67%). The share of people unable to afford their basic needs was 12%, and people reporting reduced household food consumption reached 26% in April 2020. Women's job prospects will be severely affected since they comprise about 45% of formal employees. Their share in SME employees reached 22.5% in 2016. In 2017, 43.2% of SMEs were managed and/or owned by women, with one-third of new businesses registered by women entrepreneurs. The pandemic has wiped out tourism and high-value horticulture exports, which affect women as they comprise 54% of workers in catering and trade and tourism, and 46% in agriculture and forestry.

Fiscal pressure. The pandemic is creating significant fiscal pressure. Budget revenues are expected to decline to SUM151.4 trillion (25.2% of GDP) in 2020 against the pre-COVID-19 estimate of SUM159.0 trillion, driven by fall in taxes. Budget expenditures are expected to increase to SUM172.3 trillion (28.6% of GDP) in 2020 against the earlier estimate of SUM162.4 trillion, driven by health and social expenditures and countercyclical spending. The IMF projects the overall fiscal deficit to be SUM33.8 trillion ($3.41 billion or 5.6% of GDP) in 2020 against the pre-COVID-19 estimate of SUM17.8 trillion ($1.86 billion or 2.7% of GDP).

COVID-19 pandemic response plan. The government has rolled out a robust COVID-19 pandemic response plan, including the establishment of the SUM10 trillion Anti-Crisis Fund (ACF) ($1.05 billion or 1.5% of GDP) under the state budget. The government, through the Republican Anti-Crisis Commission headed by the Prime Minister, will oversee its implementation. The multiplier effects of the measures are projected to help revive growth to 7% in 2021.

Increased health spending. The government has increased its health sector support. On 19 March 2020, the Ministry of Health (MOH) launched the COVID-19 Strategic Preparedness and Response Plan (SPRP), prepared with WHO support, as a framework document for effective pandemic management. In addition to the existing health expenditures under the budget, the government has allocated SUM1 trillion ($104.6 million) from the ACF to (i) support the Agency for Sanitary and Epidemiological Wellbeing and its regional centers; (ii) prepare hospitals and quarantine complexes with the required equipment, staff, and vehicles; and (iii) supplement salaries with hazard pay (equivalent to a daily supplement of 6% of salaries) for 15,000 medical staff who are directly affected by COVID-19. Two COVID-19 hospitals one with 20,800 beds in the Upper Chirchik District and another with 10,000 beds in the Zangiata District of Tashkent region have been prepared. Modular hospitals, diagnostic laboratories, and quarantine stations with capacity of 1,000 people each have been prepared in Surkhandarya, Namangan, and Navoi regions, along with 14 regional hospitals and 216 institutions for epidemiological surveillance. Medicine and medical equipment imports are exempted from tax. The MOH has purchased testing kits and 1,796 ventilators, including 800 ventilators procured with ADB support. It has set up mobile laboratories in high-risk areas, and the production of medical masks has been increased to 5 million pieces a day. More than 250,000 tests were conducted as of 28 April 2020, with plans to conduct 400,000 until 1 September 2020. WHO, ADB, the World Bank, and the United Nations Development Programme (UNDP) have supported the procurement of medical equipment and the capacity building of medical staff, including online training. The Central Asia Regional Economic Cooperation (CAREC) countries, among others, have provided bilateral support. The International Atomic Energy Agency supplied diagnostic test systems to the Scientific Research Institute of Virology. New health technical schools will also be opened.

Measures to support businesses and employment. The government has rolled out wide-ranging measures and the ACF includes an allocation of SUM8.3 trillion ($868.5 million) for the following fiscal measures:

(i) Tax measures. The social contributions tax for individual entrepreneurs has been reduced by 50% (from 12% to 6%) from 1 April to 1 October 2020. Payments of personal income tax, and social tax for individual entrepreneurs and SMEs, have been suspended with interest-free deferment until 1 October 2020. SMEs and businesses in services, transportation, tourism and aviation are exempted from property and land taxes and will pay a reduced social contributions tax (1% instead of 12%). The State Tax Committee will suspend tax audits until 1 January 2021. The filing of personal income tax declarations for fiscal year 2019 has been postponed from 1 April 2020 to 1 August 2020. Local governments will reduce taxes by 30%, provide a 6-month grace period for paying property and land taxes and fees for water use, and suspend the accrual of tourist (hotel) tax from April until October 2020. The Ministry of Finance (MOF) will compensate the loss of revenue to local governments. The tax rate for water use on agricultural irrigated land was reduced by 50%. The deadlines for audit reports are extended until 1 October 2020. These measures will cost SUM4.2 trillion.

(ii) Support for businesses and small and medium-sized enterprises. The State Fund for Support of Entrepreneurship will be capitalized with an additional SUM500 billion to expand loan guarantees and compensate for interest expenses up to a certain limit until 1 October 2020. A zero-rent policy has been introduced for businesses using 3,600 government-owned properties. Businesses experiencing financial hardships due to COVID-19 will not be declared bankrupt until after 1 November 2020. The terms of investment commitments will be extended by 6 months. To support trade and ensure the uninterrupted flow of goods across the CAREC region, businesses will be allowed to export without payment guarantees, and the penalties on overdue receivables will be suspended until 1 October 2020. Value-added tax and customs tax will be deferred for imports until 1 July 2020. Licensing requirements for freight of goods will be abolished.

(iii) Public works. A total of SUM3.6 trillion will be allocated to the Public Works Fund under the ACF for public works in the regions (rehabilitation of urban, agriculture, sanitation and health, and education-related facilities) and small industrial zones. In April 2020, public works provided temporary employment for 67,000 people. The government will also reprioritize budget expenditures to redirect savings of SUM6 trillion to projects for entrepreneurs and employment.

Additional monetary measures. Loan maturities have been extended and loan payments worth SUM7.9 trillion have been deferred without penalty until 1 October 2020 for businesses in the most affected sectors, i.e., tourism, hotels, transport, private education, and international trade. Additional loan deferment and restructurings of SUM11.7 trillion for affected individuals, self-employed entrepreneurs, and businesses have been introduced. Interest-free loans will be provided for businesses to continue wage payments and to strategic enterprises for debt repayment. State-owned banks will provide businesses renewable revolving loans worth SUM30 trillion for working capital. Loans for construction of individual housing will be availed to stimulate the economy. The Central Bank of Uzbekistan (CBU) lowered its benchmark interest rate from 16% to 15% in April 2020. It will provide monthly liquidity of up to SUM 1 trillion through repurchase agreements and swap arrangements and ease the mandatory reserve requirements to provide SUM2.6 trillion liquidity for commercial banks. A special mechanism for additional liquidity of up to 3 years for SUM2 trillion has been introduced. The CBU recommended stress testing of the banks by 1 June 2020.

Social spending. The government has increased social spending from SUM26.7 trillion in 2019 to SUM34.4 trillion in 2020 to enhance its existing comprehensive social protection system. Under the ACF, SUM0.7 trillion ($73.2 million) has been allocated to expand social safety nets for the poor and vulnerable groups. Since 1 April 2020, the number of low-income households receiving social and childcare benefits (families with children under the age of 14) has been increased by 10% from 595,400 to 655,000. Starting 1 June 2020, an additional 10% increase raises the number of households to 720,000. Expiring social benefit payments have been extended up to 12 months. Eligibility criteria for social benefits has been simplified and the income criterion relaxed, resulting in an additional 123,000 households receiving social and childcare benefits, increasing the total number of households to 843,000. A total of 1.04 million employees of state educational, sports, and cultural institutions will continue to receive their salaries as budgeted. Laying off quarantined employees and/or their family members is prohibited, guaranteeing the preservation of jobs. Quarantine leave is granted to parents of kindergarten pupils and primary school students. Temporary disability benefits (benefit rate increased from 60% 80% to 100% of the average monthly salary) will be given to quarantined parents under simplified application procedures. The elderly living alone, and people with disabilities, will be supplied with free food and hygiene products. Paid leave will be provided to a working parent caring for children. Employees, especially pregnant women, the elderly, and people with disabilities and chronic diseases, will be on 100% paid leave. Staple foods will be imported as needed to prevent shortages and artificial price hikes.

Sound macroeconomic management. Uzbekistan had a sound record of macroeconomic management leading up to the crisis. Strong macroeconomic fundamentals helped achieve 5.6% GDP growth in 2019 and average growth of 6.8% during 2010 2019. Structural reforms since 2017 are supporting the transition to a private sector-driven market economy. Historically, the country has pursued a conservative fiscal and debt policy. In 2019, external debt was 43.5% of GDP and public debt was 29.2% of GDP, with official foreign exchange reserves reaching $29.2 billion (equivalent to 14 months of imports). The fiscal deficit widened from 1.9% of GDP in 2017 to 3.9% of GDP in 2019 due to the social spending to mitigate the impact of structural reforms. Currency devaluation by 48% in 2017, price liberalization, and bank credit growth (103.8% in 2017 and 51.3% in 2018) increased inflation from 8.8% in 2016 to 17.5% in 2018. Under the inflation targeting regime and the policy of reduced directed lending to state-owned enterprises (SOEs), inflation is expected to decrease from 14.5% in 2019 to 12.9% in 2020 and 9.5% in 2021. The CBU targets inflation below 10% by 2021 and 5% by 2023.

Impact

Adverse impacts of COVID-19 on the population's health, incomes and economic opportunities as well as macroeconomic stability mitigated.

Project Outcome	
Description of Outcome	COVID-19 outbreak more effectively managed and its adverse social and economic impacts reduced.
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	COVID-19 response and health system strengthening measures implemented Affected sectors and businesses supported to prevent job losses from the economic downturn Dedicated social safety net funds for social protection and compensation for economic losses of low-income households expanded
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Responsible ADB Officer	Akin, Cigdem
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	Ministry of Finance 5 Mustaqiliik Square Tashkent 100008 Republic of Uzbekistan

Timetable	
Concept Clearance	13 Feb 2022
Fact Finding	26 Mar 2020 to 26 Mar 2020
MRM	14 May 2020
Approval	25 Jun 2020
Last Review Mission	-
Last PDS Update	25 Jun 2020

Loan 3939-UZB

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	250.00	Cumulative Contract Awards			
ADB	250.00	-	0.00	0.00	%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	-	0.00	0.00	%

Loan 3940-UZB

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	250.00	Cumulative Contract Awards			
ADB	250.00	-	0.00	0.00	%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	-	0.00	0.00	%

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