



Initial Poverty and Social Analysis

Project Number: 51350-004
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Uzbekistan: Economic Management Improvement Program, Phase 2

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 April 2022)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.000088
\$1.00	=	SUM11,399.48

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CSO	–	civil society organization
EMIP II	–	Economic Management Improvement Program, Phase 2
GDP	–	gross domestic product
MOF	–	Ministry of Finance
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Uzbekistan and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Uzbekistan	Project Title:	Economic Management Improvement Program, Phase 2
Lending/Financing Modality:	Policy-Based Loan	Department/Division	Central and West Asia Department / Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Uzbekistan has been undertaking structural reforms to facilitate transition towards a market-based economy since 2017 under its National Development Strategy, 2017–2021, and Roadmap of Reforms (2019-2021).^a Uzbekistan maintained prudent macroeconomic performance with an average gross domestic product (GDP) growth of 6.8% during 2010–2019. The coronavirus disease (COVID-19) pandemic impacted the economy with business closures, downturn in global trade and decline in commodity exports and GDP growth fell to 1.9% in 2020 (from an earlier pre-COVID-19 forecast of 6%) in 2020 but rose to 7.4% in 2021. The growth has been broadly inclusive with national poverty rate falling from 25.8% in 2005 to 11.4% in 2018. Uzbekistan ranks high on Human Development Index, increasing from 0.599 in 2000 to 0.717 in 2018. To accelerate the post-pandemic recovery, the government launched a state-owned enterprise (SOE) reform strategy in 2020, involving transformation of major SOEs and state-owned banks along with other macroeconomic reforms. The proposed Economic Management Improvement Program, Phase 2 (EMIP II) of the Asian Development Bank (ADB) will support government with \$300 million budget support loan to strengthen its fiscal management, improve SOE governance and operations, and enhance public sector accountability. The program is aligned with the ADB Country Partnership Strategy for Uzbekistan, 2019–2023,^b which recognize that sound public sector management and private sector development are essential to achieve the government’s goal of transforming the state-dominated economy and creating value-added jobs. The program is also aligned with ADB’s Strategy 2030, which prioritizes (i) strengthening governance, quality, and capacity of public institutions to undertake policy reforms and promote private sector development; (ii) accelerating progress in gender equality; (iii) addressing remaining poverty and reducing inequalities; and (iv) building climate change and enhancing environmental sustainability.^c

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)
EMIP II will have nationwide impact on poverty reduction through efficient and fiscally sound public service delivery.

C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** Around 3,000 SOEs dominate important segments of Uzbekistan’s economy and account for nearly 13% of formal sector employment and about 36% of revenue in state budget in 2020. Poor financial performance, contingent liabilities, and debt of SOEs pose fiscal burden given that in 2019 only 57% of SOEs were profitable and they were regularly subsidized. Inefficient SOEs dealing with utilities with inadequate investment adversely impact public services, particularly for the poor and vulnerable population. Uzbekistan’s financial sector is also dominated by 13 state-owned banks out of 32 commercial banks, accounting for more than 85% of banking sector capital and assets. Until 2019, the state-owned banks such as JSC Agrobank and JSC Xalq Bank provided directed lending to SOEs at below-market rates, disincentivizing private sector credit. They administer various government programs to support agriculture, home ownership, small business development, but there are non-performing loan issues under these programs. Reforming SOEs to create enabling environment for the private sector and improving financial intermediation, particularly for small and medium-sized enterprises (SMEs) are essential for poverty reduction and inclusive growth. SMEs account for 78% of formal and informal employment in 2018. According to the World Bank, share of people living in poverty (\$3.2 per person per day in PPP terms) increased from 7.4% to 8.7% in 2020, equivalent to an additional 448,000 people falling into poverty during the pandemic.^d Although inequality is low with Gini coefficient of falling from 0.30 in 2011 to 0.26 in 2016, the proportion of people with income below 50% of median income is about 8%. The social protection system—social assistance, social insurance, and labor market programs—supports about 55% of people, mostly through social insurance which covers 44% of the population. However, social protection mechanisms have been fragmented and state-owned pension fund under JSC Xalq Bank is not fiscally sustainable. Informal employment is pervasive. The pandemic resulted in dismissal of an additional 1.9 million persons (over 14% of total employment) and the return of thousands of Uzbek labour migrants. Unemployment rate increased from 9.4% in 2019 to 16.5% in 2020 and 10.5% in 2021. During the pandemic, due to lower tax revenue collection and increased countercyclical expenditures, including social protection, the fiscal deficit increased to 4.4% of GDP in 2020 from 3.9% of GDP and widened to 5.5% in 2021.

2. **Impact channels and expected systemic changes.** EMIP II will support poverty reduction nationwide by (i) improving the public investment management and SOE debt management; (ii) efficient tax revenue mobilization; (iii) promoting gender-responsive program-based budgeting and green budgeting; and (iv) expanding social protection under the Social Protection Single Registry (SPSR). Enhanced public sector audit will contribute to transparent resource allocation. Improved operational and financial performance of SOEs will help reduce the fiscal burden and promote sustainable delivery of essential public goods and services. Reducing SOE monopolies will support private sector.

3. **Focus of (and resources allocated in) the transaction TA or due diligence.** Due diligence will be carried out by project processing team to identify: (i) ministries for gender-responsive program based budgeting and green budgeting; (ii) service-oriented SOEs for transformation; (iii) legal, regulatory, and institutional reforms for SOE governance; and (iv) effective IT-based systems for social assistance, tax administration and public sector audit.

4. **Specific analysis for policy-based lending.** Interlinked and cross-sectoral fiscal reforms under EMIP II will improve delivery of social protection, gender targeting, and green investments. Improved corporate governance, and operational and financial viability of SOEs will strengthen service delivery. The policy, legal and institutional reforms on SOEs will create the enabling conditions for private sector, employment, and poverty reduction over the medium-term.

II. GENDER AND DEVELOPMENT

1. **What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?** In 2017, Uzbekistan was ranked 59th out of 189 countries in gender inequality index (0.274), reflecting inequalities in reproductive health, empowerment, and economic activity. The labor force participation rate was low for females (53%) compared to males (78%) in 2018. Women are overly represented in low paying public sector jobs (77% in healthcare and 76% in education) and constitute about 46% of workforce in agriculture. Women have been adversely impacted by job losses during the pandemic as they comprise about 54% of employees in catering and trade sectors. In small private enterprises, 80% of women employees and 87% of men employees lack adequate social security coverage. Women entrepreneurs comprised only 29% of registered businesses and received only 8.1% of small business loans in 2019, which declined further during the pandemic. Women are underrepresented in technical fields and managerial positions at large corporations. Low-income households, especially women-headed ones raising children, faced impoverishment during the pandemic. The social benefit recipients rose to 5.7 million and the number of low-income households receiving childcare and social benefits doubled to 1.2 million in 2020.

2. **Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making?** Yes No

Gender-responsive program-based budgeting under EMIP II will help close the gender-based inequalities. The program will help develop the national social protection strategy and expand the use of the automated SPSR for better targeting of social benefits and lowering poverty risks for women, children, and low-income households. SOE reforms will promote private sector, access to finance, and job creation. Female independent supervisory board membership at key SOEs will be promoted for women's voice in decision making in management and service delivery of SOEs. EMIP II's focus on state-owned water utility company will improve household's access to clean water and sanitation services, benefitting women. The assessment of directed lending programs by state-owned banks will strengthen access to finance by women entrepreneurs. Green economy also benefits women through green jobs. Grievance redressal mechanism on corruption will also help identify issues related to women and vulnerable groups.

3. **Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?**
 Yes No

4. **Indicate the intended gender mainstreaming category:**

- GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design. The potential stakeholders are (i) Ministry of Finance and Ministry of Economic Development and Poverty Reduction; (ii) Anti-Corruption Agency, Anti-Monopoly Committee, Chamber of Accounts; State Assets Management Agency, State Tax Committee, and the Pension Fund; and (iii) selected state owned banks and SOEs. A stakeholder analysis and participation plan will be prepared during the program design.

2. Who are the key, active, and relevant civil society organizations (CSOs) in the project area? Professional associations such as chambers of industry and commerce, universities and research institutes, and civil society representatives will be engaged through information sharing and consultations during the program design.

3. Are there issues during project design for which participation of the poor and vulnerable is important?
 Yes No

4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?

Indirect participation will be ensured by strengthening gender-responsive program-based budgeting and social protection system under the centralized SPSR and the Pension Fund. Social protection specialist and gender sensitivity analysis specialist will conduct due diligence for better targeting of these groups.

5. What level of CSO participation is planned during the project design?

M Information generation and sharing M Consultation NA Collaboration NA Partnership

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No involuntary land acquisition and resettlement expected.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No adverse impacts on indigenous peoples expected.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities Yes No

4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

Creating decent jobs and employment (Medium) Adhering to core labor standards Labor retrenchment (Low) Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability (Low) Increase in unplanned migration Increase in vulnerability to natural disasters Creating political instability Creating internal social conflicts Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the project design?

EMIP II will improve social protection through gender-responsive and SDG-based program-based budgeting and expansion of social assistance. The SOE and anti-monopoly reforms will improve operational and financial efficiency of SOEs, creating fiscal space for social spending, and stimulate private sector development and job creation. While the government does not have a current plan for labor retrenchment and SOE reforms do not support and/or lead to labor retrenchment, it promotes private sector development and labor force training with support from the international financial institutions. While SOE restructurings may lead to cost-recovery based adjustments in tariffs, direct effect on affordability will be offset by efficiency gains enabling lower prices and improved service quality.

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks? Are the relevant specialists identified? Yes No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence?

National and international gender sensitivity analysis specialists will conduct the poverty, social and gender analysis and project processing team will conduct the participation plan.

Source: Asian Development Bank.

^a Government of Uzbekistan. 2017. Strategy on Actions for Further Development of Uzbekistan (2017–2021). *Presidential Decree No. 4947*. Tashkent; and Government of Uzbekistan. 2019. Roadmap of Reforms (2019–2021). *Presidential Decree No. 5614*. Tashkent.

^b ADB. 2019. *Country Partnership Strategy: Uzbekistan, 2019–2023—Supporting Economic Transformation*. Manila.

^c ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

^d World Bank. 2020. *Supplementary Development Policy Financing: Sustaining Market Reforms in Uzbekistan*. Washington, D.C.