



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 07-Nov-2022 | Report No: PIDA35035



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Uzbekistan	P179007	Advancing Uzbekistan's Economic and Social Transformation Development Policy Operation (P179007)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	13-Dec-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Uzbekistan	Ministry of Finance		

Proposed Development Objective(s)

To support Uzbekistan's transition to an inclusive and private-sector led market economy through (a) strengthening market institutions and the environment for private sector growth; (b) improving state-owned enterprise management; and (c) increasing social inclusion and resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	950.00
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DETAILS

Total World Bank Group Financing	950.00
World Bank Lending	950.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

Uzbekistan continues to make good progress in its market transition as it enters a seventh year of reforms. Since late 2016, Uzbekistan has implemented wide-reaching economic and social reforms. Most prices have been liberalized. Foreign exchange is now fully convertible for current account needs, and efforts are under way to ease capital account restrictions. An overhaul of the tax and regulatory system has substantially lowered barriers that favored state enterprises and suppressed private sector development. State-directed lending at interest rates below the official monetary policy rate has largely ended, and credit to the economy has slowed to more sustainable levels. Reforms to liberalize horticultural exports and improve cotton and wheat policies have continued to propel strong agricultural output and productivity improvements. These reforms, which have been supported through successive DPOs, contributed to record increases in new business and taxpayer registrations, horticultural exports, and tourist arrivals prior to the COVID-19 pandemic. They have continued to help Uzbekistan maintain economic growth despite the impact of the pandemic and amidst heightened uncertainties from the conflict in Ukraine. Crucially, they have supported visible improvements to the lives of citizens: poverty rates are lower, incomes of the bottom 40 percent are considerably higher, and economic freedoms continue to expand. Importantly, the reforms have also supported a shift in government policies: issues such as poverty, gender equality, environmental stresses, and the impact of climate change are now the principal focus of the government's medium-term reform program.

Despite the uncertainties Uzbekistan faces from the conflict in Ukraine, the government remains firm in its resolve to tackle deeper structural constraints to a more effective and inclusive market transition. The government's new 2022-2026 National Development Strategy (NDS) builds on the successful completion of the 2017-2021 Development Strategy and renews the government's commitment to the economic transition. The NDS is ambitious in its goals of halving the poverty rate by 2026 and supporting Uzbekistan's transition to upper-middle-income country (UMIC) status by 2030. To make meaningful progress toward these goals, state controls over factor markets and thousands of SOEs need to be loosened to improve the efficiency of resource allocation and increase private sector growth and investment, including in sectors where considerable private sector interest exists such as energy, telecommunications, chemicals, and aviation. Uzbekistan has one of the smallest service sectors—the driver of job creation in many successful economic transitions—in the region and in its income group. Public investments need better alignment to development and policy priorities. Greater outward economic orientation, on the back of stronger trade and FDI linkages, are critical for higher GDP growth. Further policies to increase the economic participation of women, youth, and the disabled will be important to enhance inclusion. The government remains focused on addressing these challenges. But having faced down an unprecedented shock from the COVID-19 pandemic, Uzbekistan again finds itself facing significant policy uncertainties—this time from the conflict in Ukraine. The combination of Russia's sharp economic contraction, higher global food prices, and tightening global financial market conditions and investor appetite are likely to slow growth, erode household well-being, and increase financing costs for the government. Despite these challenges, the government maintained the view that its longer-term prosperity continues to depend on the effectiveness of the ongoing market transition.

The proposed operation is supported by an adequate macroeconomic policy framework. Despite significant macroeconomic headwinds in recent months, strong fiscal and external buffers put the country in good stead to weather any potential new shock. A pandemic-induced rise in the fiscal deficit has begun to moderate and the deficit is expected to fall further over the medium-term through further fiscal consolidation and improved revenue collections. Pressure on the current account will remain elevated but is mitigated by a focus on export-led growth, and a policy environment increasingly conducive to FDI, continued access to concessional and non-concessional financing, and



healthy external buffers. Public debt is projected to stabilize at about 35 percent of GDP over the medium-term. Slowing credit growth and improving monetary policy transmission are continuing to help contain domestic sources of inflation risks and reduce risks to the financial system.

Relationship to CPF

This proposed operation is fully consistent with the focus areas of the 2022-2026 CPF. All three pillars of the PDO are consistent with the first high-level outcome of the CPF on increasing inclusive private sector employment—specifically Objective 1.1 on expanding competitive access to markets and Objective 1.2 on enabling private sector growth and investment. Additionally, the third pillar of the PDO is consistent with the second high-level outcome of the CPF on improving human capital—specifically Objective 2.3 which aims to expand social protection coverage and improve inclusive labor market policies.

A wide range of World Bank operational, analytical, and policy engagements has contributed to this operation. These include: (i) a recent SCD, Country Economic Memorandum and two Public Expenditure Reviews (one of which is forthcoming); (ii) implementation support for the Institutional Building Loan Project to support competition and insolvency legislation and regulatory improvements, improve fiscal transparency and risk management, and support the SOE reform process; (iii) implementation support for Strengthening the Social Protection System in Uzbekistan project which has been the bedrock of World Bank support and engagement on Uzbekistan's substantial overhaul of the social safety net system; (iv) the Listening to the Citizens of Uzbekistan survey, and (v) an IFC Country Private Sector Diagnostic for Uzbekistan, which has underpinned the World Bank's engagement and support for private-sector focused reforms that maximize financing for development in the telecommunications sector.

C. Proposed Development Objective(s)

To support Uzbekistan's transition to an inclusive and private-sector led market economy through (a) strengthening market institutions and the environment for private sector growth; (b) improving state-owned enterprise management; and (c) increasing social inclusion and resilience.

Key Results

Consistent with the government's reform priorities, measures in the proposed operation are intended to support Uzbekistan's transition to an inclusive and private sector-led market Under the first pillar, the operation supports measures to establish robust legal frameworks for privatization, competition, and insolvency; increase private sector participation in Uzbekistan's high-potential telecommunications sector; and deepen non-bank financial markets. Under the second pillar, the operation supports measures to restrict SOEs from non-core business activity expansions, reduce fiscal risks arising from SOEs through a new risk management framework, and improve the governance of SOEs. Under the third pillar, the operation supports measures to improve the efficiency, effectiveness, and transparency of social safety nets through a new social protection policy, and reform the maternity benefits system for private sector employees. The operation will also contribute to the government's climate action agenda through more explicit requirements for environmental issues to be considered as part of the privatization process, through further measures to streamline the performance of SOEs, and through reforms that further strengthen the social safety net system used to increase social resilience to climate change shocks.

D. Project Description



The proposed operation helps advance important reforms that strengthen market institutions and the environment for private sector growth, improve the management and performance of state-owned enterprises, and increase social inclusion. New privatization legislation is expected support the government to accelerate progress in reducing the state's economic footprint—one of the priorities under the economic pillar of the NDS. The privatization of a mobile telecommunications operator is expected to bring much-needed private investment into a high-potential enabling sector, increase competition, and expand digital services for consumers. It is also expected to serve as a test case for further privatization in the telecommunications sector. The passage of new framework legislation for competition is expected to help establish strong legal foundations and a level playing field for competitive private sector led growth. New insolvency legislation is expected to address a major bottleneck impeding private sector restructuring and reorganization, and the resolution of nonperforming loans in the banking system. New measures to curtail SOEs from engaging in non-core business activities; establish more stringent SOE debt and financial discipline; and strengthen supervisory board accountability are expected to help improve the performance, management, and financial sustainability of SOEs. A new social protection policy will consolidate social protection delivery mechanisms into a single agency, remove administrative discretion, and standardize identification in social assistance programs. Measures to transfer maternity pay obligations from the private sector to the state will help address a major source of gender-based employment discrimination.

E. Implementation

Institutional and Implementation Arrangements

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Two actions in this operation could generate negative poverty and social impacts, but effective mitigation strategies are in place to minimize risks. An analysis of poverty and social impacts suggests that two prior actions relating to privatization could generate negative poverty and social impacts, but well-identified mitigation strategies and continued investments in strengthening social protection systems are expected to minimize negative impacts on the poorest households. Over the longer-term, all actions in the operation are likely to generate positive distributional benefits through greater private sector growth and job creation, and from the reduced cost of inefficient public spending.

Environmental, Forests, and Other Natural Resource Aspects

The operation is expected to have largely neutral impacts on the environment, while also helping to reinforce the government's climate change goals. An analysis of environmental and climate impact suggests that actions are likely to be largely neutral. One action relating to privatization will require careful monitoring to minimize environmental impact. Several actions are expected to contribute to the government's climate change policy objectives, including measures to improve SOE performance and strengthen the social safety net system that is used to support vulnerable people, including those affected by climate change.

G. Risks and Mitigation



The overall risk to the operation is moderate as Uzbekistan nears a seventh year of a strong, sustained, and systematic reform program. Political and governance risks have moderated significantly since 2017 as reforms of increasing political, social, and economic complexity continue to enjoy strong political and public backing. Although the complexity of reforms has increased, for example in areas such as factor market and SOE reforms, the government has established a track record of ameliorating negative social impacts, maintaining strong economic management, and strengthening citizen and media engagement processes. While the COVID-19 crisis and the effects of the conflict in Ukraine have increased implementation challenges for the government, it also provided momentum to accelerate change processes in the health and social safety net systems and created opportunities to build a more sustainable economy. These changes are likely to further moderate the risk environment in Uzbekistan over the longer-term. Nevertheless, the complexity of the next phase of reforms envisioned by the government, and the continued management of the COVID-19 crisis, requires careful management of economic and social risks, and a firm commitment to maintaining macroeconomic discipline to rebuild buffers over the medium term. The only substantial risk identified in this operation relates to institutional capacity. Other risks are assessed as moderate or low.

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APPROVAL

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