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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 19-Aug-2024 | Report No: PIDDA00115



**BASIC INFORMATION**

**A. Basic Project Data**

Project Beneficiary(ies) Uzbekistan	Operation ID P501037	Operation Name Second Inclusive and Resilient Market Economy Development Policy Operation	
Region EUROPE AND CENTRAL ASIA	Estimated Approval Date 03-Oct-2024	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing (DPF)
Borrower(s) Republic of Uzbekistan	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

To support Uzbekistan’s transition to an inclusive and resilient market economy through: (i) creating markets, (ii) improving fiscal risk management and public procurement, and (iii) supporting social inclusion and green resilience.

**Financing (US\$, Millions)**

**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

**SUMMARY**

<b>Total Financing</b>	<b>800.00</b>
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**DETAILS**

<b>Total World Bank Group Financing</b>	<b>800.00</b>
World Bank Lending	800.00

**Decision**

The review did authorize the preparation to continue

**Explanation**

A Concept review for second and subsequent operations in a programmatic DPF series is not longer required as of June 13, 2024. The CD has not requested a concept review meeting for this operation.



## B. Introduction and Context

### Country Context

- 1. Uzbekistan is midway through an ambitious, historic reform program in a bid to rapidly converge to higher income levels.** Uzbekistan's 37 million people have limited economic means, with an Atlas gross national income per capita of US\$2,360 in 2023. A continuous program of reform since 2017 has seen Uzbekistan become one of the world's top reformers, with average Gross Domestic Product (GDP) growth since 2017 of 5.3 percent outperforming many peers. However, further, and even bolder reform steps are needed to meet Uzbekistan's goal of reaching upper middle-income status by 2030.
- 2. To maintain its ambitious trajectory, Uzbekistan needs to continue to improve the business environment, proactively act on climate change, and ensure inclusive and efficient public services.** Uzbekistan's rapid growth will depend on an increasingly vibrant private sector, which will require continued reforms to reduce the role of the state in the economy and ensure open access and fair competition in markets. It will also be essential that public sector resources are utilized efficiently to crowd in greater private investment, improve public services and support vulnerable groups. Finally, navigating the twin-pronged threat and opportunity that climate change presents will be essential, to adapt to the expected impacts of climate change and to take advantage of green growth opportunities.

### Relationship to CPF

- 3. This proposed operation is fully consistent with the focus areas of the CPF.** All three pillars of the PDO are consistent with the first higher-level objective (HLO) of the CPF on increasing inclusive private sector employment—specifically Objective 1.1 on expanding competitive access to the markets, Objective 1.2 on enabling private sector growth and investment, Objective 1.3. on increasing the returns from agriculture and agribusiness development and Objective 1.4 on improving infrastructure for competitiveness and connectivity. The third pillar of the operation also support the second HLO of the CPF on improving human capital (Objective 2.3: expanding social protection coverage and improving inclusive labor market policies). The actions relating to energy sector reform, climate change and air pollution are consistent with the third HLO of the CPF, specifically Objective 3.1 on decarbonization and green development of the economy and Objective 3.2 on more efficient use of natural resources. The program is also aligned with the WB Gender Strategy, Climate Change Action Plan and IDA20 Special Themes and Cross-Cutting Issues. A wide range of WB operational, analytical, and policy engagements have contributed to this operation.

## C. Proposed Development Objective(s)

- 4. To support Uzbekistan's transition to an inclusive and resilient market economy through: (i) creating markets, (ii) improving fiscal risk management and public procurement, and (iii) supporting social inclusion and green resilience.**

### Key Results

- 5. The Program Development Objective (PDO) is to support Uzbekistan's transition to an inclusive and resilient market economy through: (i) creating markets; (ii) improving fiscal risk management and public procurement; and (iii) supporting social inclusion and climate change action.** This proposed development policy operation is the second and final operation in a programmatic series of two operations. The proposed operation supports key



government priorities. The first PDO pillar supports measures to improve the business and investment environment, and to enhance efficiency and reduce state dominance in the key sectors of agriculture, rail, and energy. The second pillar supports measures to improve fiscal risk transparency and management, especially relating to PPPs and a good practice, new Public Procurement Law. The third pillar supports measures to expand in-work social protection, further measures to protect victims of domestic violence, and measures to strengthen environmental sustainability and climate change action. Government priorities supported include reducing GHG emissions in power generation and industrial processes, enhancing climate resilience in the water resources and agriculture sectors, and mobilizing climate finance. These measures reinforce the business environment and fiscal risk mitigation of the other pillars to enable growth, sustainability, and inclusion.

#### D. Project Description

- 6. This operation consists of twelve prior actions organized into three pillars.** Pillar 1 Creating Markets (prior actions 1-5) will focus on strengthening regulatory quality, competition and market orientation in the energy, rail, and agriculture sectors and improve the legislative framework for investment. Pillar 2 Improving Fiscal Risk Management and Public Procurement (prior action 6) will support the commencement of publication of a new climate-sensitive Fiscal Risk Statement, further details about public-private partnerships, and a new Public Procurement Law. Pillar 3: Supporting Social Inclusion and Climate Change Action (prior actions 7-12) will support a new Law on Social Insurance, further measures to protection women against violence, a new Energy Efficiency law, a new Water Code, strengthened national Environmental Impact Assessment regulations, new air quality standards and a new framework to support the climate-responsive corporate bonds and state support programs.

#### E. Implementation

##### Institutional and Implementation Arrangements

- 7. The MEF is responsible for implementing the program supported by the proposed operation.** As the main implementing agency, the MEF will coordinate with other government agencies to implement the operation. These include the Presidential Administration, the Office of the Cabinet of Ministers, the Agency for Strategic Reforms, the Ministry of Agriculture, the State Asset Management Agency (SAMA), Ministry of Employment and Poverty Reduction, the MEEPCC, the Development Strategy Centre, the Center for Economic Research under the Presidential Administration, NASP, the Supreme Court, and the Statistics Agency. The MEF will work with these institutions to collect the data necessary to assess implementation progress and evaluate the results. The technical capacity of these institutions is adequate to perform regular monitoring of the indicators and outcome measures.

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

##### Poverty and Social Impacts

- 8. Eight out of the 12 prior actions supported by this DPO have favorable poverty and distributional implications.** Two of these are expected to have strongly positive distributional impacts, namely measures to liberalize the agriculture market and strengthen land tenure security (Prior Action 4), expand the provision of in-work benefits and strengthen the protection of gender-based violence (Prior Action 7). Enhancing market competitiveness and job creation through reforms in the investment environment (Prior Action 5) is likely to have positive, indirect impacts. Additionally, water resource management (Prior Action 9) and air quality management by reducing GHG emission (Prior Action 8) and PM2.5 (Prior Action 11) and upgrading the EIA regulations (Prior Action 10) are likely to have positive distributional impacts since poorer households are more exposed to water supply disruption and air pollution while having lower adaptive capacity. While increasing energy tariffs (Prior Action 1) could have short-



term risks of increased poverty, the accompanying social protection measures and introduction of lifeline tariffs (Prior Action 2) are expected to mitigate negative impacts. The other actions envisioned in this DPO will likely have neutral impacts across socio-economic groups.

Environmental, Forests, and Other Natural Resource Aspects

**9. The negative environment, natural resources and forests impacts of the prior actions supported under the three pillars of this operation are minimal to nil.** Reforms in the energy, agriculture and railway sectors under Pillar 1 will continue the ongoing energy tariff adjustments, reforms land tenure and railway tariff. These will help promote efficient energy use, climate resilience and increase investments in renewable energy which will contribute to reduction of GHG emissions. The project has incorporated measures, such as the lifeline tariff, to protect vulnerable households to encourage electric and gas use instead of shifting to coal and biomass due to the tariff adjustment. Renewable energy initiatives may have potential negative impacts on wildlife (including migratory birds) other ecosystem services. Mitigation measures to address negative impacts of renewable energy should be properly assessed upstream and appropriate mitigation measures developed. Pillar 2 will encourage green procurement that will have a positive environmental outcome. Pillar 3 will have direct and significant contribution to the environment by reducing GHG emissions by promoting efficient energy and water use, improving air quality, and integrating climate change adaptation and mitigation measures into development projects. As part of this DPO, the government updated its EIA to address impacts of development projects on climate change. The MEEPCC should play a key role in mitigating the potential negative impacts of this operation by effectively applying its EIA.

**G. Risks and Mitigation**

**10. The overall risk to the operation is moderate. Uzbekistan has established a strong track record for delivering reforms, as evidenced by six successive DPOs and the results assessed in four ICRs so far.** The reform program enjoys strong political and public backing. The government has established a track record of managing and mitigating negative social impacts, maintaining strong economic management, and strengthening citizen and media engagement. Institutional risks remain substantial due to the fast pace of reforms and the nascency of many critical government institutions. While stakeholder and institutional volatility has led to some delays in implementation in the past, reformed institutional frameworks are now working well for coordination and policy implementation, but new institutional structures and reform processes will need complementary capacity-building. The government is aware of these risks and is working closely with the World Bank and other institutions to receive expert assistance and policy advice.

**CONTACT POINT**

**World Bank**

Pinar Yasar  
Senior Economist

Wei-Jen Leow  
Senior Environmental Finance Specialist

**Borrower/Client/Recipient**



**Republic of Uzbekistan**

Jasur Qarshibaev  
Deputy Minister  
jasur.qarshibaev@imv.uz

**Implementing Agencies**

**Ministry of Economy and Finance**

Jasur Qarshibaev  
Deputy Minister  
jasur.qarshibaev@imv.uz

**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):	Pinar Yasar, Wei-Jen Leow
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**Approved By**

Practice Manager/Manager:		
Country Director:	Tatiana A. Proskuryakova	19-Aug-2024