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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT
FOR
A PROPOSED IBRD LOAN IN THE AMOUNT OF US$260 MILLION
A PROPOSED IDA CREDIT IN THE AMOUNT OF US$190.2 MILLION
A PROPOSED IDA SHORTER-MATURITY LOAN CREDIT IN THE AMOUNT OF US$207.2 MILLION
A PROPOSED IDA SCALE-UP WINDOW CREDIT IN THE AMOUNT OF US$142.6 MILLION

TO THE

REPUBLIC OF UZBEKISTAN

FOR THE

Second Inclusive and Resilient Market Economy Development Policy Operation

September 5, 2024

Macroeconomics, Trade and Investment Global Practice
Europe and Central Asia Region

Republic of Uzbekistan

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange rate effective as of July 31, 2024)

UZS 12,581.00= US$ 1.00

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	MEF	Ministry of Economy and Finance
AIIB	Asian Infrastructure Investment Bank	MFD	Maximizing Finance for Development
AM	Accountability Mechanism	MoT	Ministry of Transport
ASA	Advisory Services and Analytics	MRV	Monitoring, Reporting, and Verification
CBU	Central Bank of Uzbekistan	NAPP	National Agency of Prospective Projects
CCDR	Country Climate and Development Report	NASP	National Agency for Social Protection under the President of the Republic of Uzbekistan
CoA	Chamber of Accounts	NDC	Nationally Determined Contribution
CPF	Country Partnership Framework	NEGU	Joint-Stock Company National Electric Grid of Uzbekistan
CSA	climate-smart agriculture	OTY	O'zbekiston temir yo'llari (Uzbekistan Railways)
DPO	Development Policy Operation	PDO	Program Development Objective
DSA	Debt Sustainability Analysis	PEFA	Public Expenditure and Financial Accountability
EDC	Entrepreneurship Development Company	PFM	Public Financial Management
EE	energy efficiency	PM2.5	fine particulate matter
EIA	Environmental Impact Assessment	pp.	percentage points
EOP	end of period	PPG	public and publicly guaranteed
FDI	Foreign Direct Investment	PPL	Public Procurement Law
FRS	Fiscal Risk Statement	PPP	Public-Private Partnership
GBV	Gender-Based Violence	PSA	Public Service Agreement
GDP	Gross Domestic Product	PV	present value
GHG	greenhouse gas	RI	Results Indicator
GoU	Government of Uzbekistan	SAMA	State Assets Management Agency
GRS	Grievance Redress Service	SFSE	State Fund for Supporting Entrepreneurship
HLO	High-Level Outcome	SOB	state-owned bank
IBRD	International Bank for Reconstruction and Development	SOE	state-owned enterprise
IDA	International Development Association	TSA	Treasury Single Account
IFC	International Finance Corporation	UFRD	Uzbekistan Fund for Reconstruction and Development
IFRS	International Financial Reporting Standards	UKS	Joint-Stock Company UzKimyoSanoat
IMF	International Monetary Fund	VAT	Value-Added Tax
JICA	Japan International Cooperation Agency	WB	World Bank
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)	WBG	World Bank Group
MEEPCC	Ministry of Ecology, Environmental Protection and Climate Change	y-o-y	year-on-year

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REPUBLIC OF UZBEKISTAN

Second Inclusive and Resilient Market Economy Development Policy Operation

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P501037	Yes	2nd in a series of 2

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 climate change action.

Organizations

Borrower:	Republic of Uzbekistan
Implementing Agency:	Ministry of Economy and Finance

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	No

SUMMARY

Total Financing	**800.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	260.00
International Development Association (IDA)	540.00
IDA Credit	332.80
IDA Shorter Maturity Loan (SML)	207.20

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Scale-Up Window (SUW)	142.60	0.00	70.59	0.00	213.20
National Performance-Based Allocations (PBA)	190.20	0.00	136.60	0.00	326.80
Total	**332.80**	**0.00**	**207.20**	**0.00**	**540.00**

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Climate Change; Energy & Extractives; Poverty and Equity; Social Sustainability and Inclusion

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk	Moderate

RESULTS

Indicator Name	Baseline	Target
Energy tariffs recovering portion of their costs	Electricity – 61% cost recovery Natural gas – 44% cost recovery (Sep 2023)	Electricity – 100% cost recovery Natural gas – 100% cost recovery (Dec 2026)
Share of social protection recipients that are below the ‘social norm’ for: a) electricity; b) gas (during heating season)	Electricity – 0% of social protection recipients Natural gas – 0% of social protection recipients (Sep 2023)	Electricity – 70% of social protection recipients Natural gas – 70% of social protection recipients (Dec 2026)
Existence of a budgeted PSA with key performance indicators	No PSA exists. (Sep 2023)	PSA with key performance indicators presented in the public budget (Dec 2026)
Number of companies in the chemical sector with a majority of private ownership	0 (Jan 2022)	2 (Dec 2026)
Land productivity index 2022=100 (agriculture value added in real terms in billion sums per 1000 hectare of sown area)	100 (Dec 2022)	115 (15% cumulative increase compared to 2022)

		(Dec 2026)
Number of newly registered foreign companies per year	1249[1] (average of yrs 2020-2022) (Jan 2022)	1374 (10% increase compared to the baseline) (Dec 2026)
Fiscal risk framework and publication of report on contingent liabilities from PPPs	No fiscal framework or methodology and no report on contingent liabilities from PPPs (Sep 2023)	Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least 2 fiscal risk reports covering PPP contingent liabilities (Dec 2026)
Share of total public procurement that is: i) subject to competitive, electronic means; ii) green public procurement[2]	i) 43.6% ii) 0% (Dec 2022)	i) 60% ii) 15% (Dec 2026)
Share of the poorest quantile receiving at least one type of social protection support	79% (Dec 2022)	85% (Dec 2026)
Share of the labor force contributing to the new social insurance schemes	0% (Dec 2022)	15% (Dec 2026)
Percentage of GBV cases filed, including domestic and sexual violence, that receive a verdict protecting survivors	5% (Sep 2023)	35% (Dec 2026)
GHG emission reductions from energy efficiency measures at major emitters (25 largest SOEs)	0 (Jan 2024)	1.5 million tCO2 (Dec 2026)
Number of water management balances prepared for river basins incorporating the effects of climate change and published	0 (July 2024)	3 (Dec 2026)
GHG emissions intensity (kg CO2eq/US$ GDP)	2.55 kg/US$ (Dec 2017)	2.42 kg/US$ (Dec 2026)
Reduction in air pollutants from industrial sources relative to 2022[3] (% by weight)	0% (Nov 2022)	6% (Dec 2026)
Share of state supported investments that conform with the Green Taxonomy	0% (Jan 2022)	30% (Dec 2026)

[1] This figure is preliminary and might be revised.
[2] This is a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured.
[3] Estimate from Ministry of Ecology, Environmental Protection and Climate Change (MEEPCC) for 2022 is 874,000 tons of air pollutants from non-transport stationary sources.

IBRD and IDA PROGRAM DOCUMENT FOR A PROPOSED LOAN and CREDIT TO THE REPUBLIC OF UZBEKISTAN

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This proposed Development Policy Operation (DPO) of US$800 million supports the Government of Uzbekistan in advancing the country's transition to an inclusive and resilient market economy.** It comprises an IBRD loan of US$260 million and three IDA credits that amount to US$540 million. The proposed operation is the second and last in a series of two operations, supporting reforms across three areas: (i) creating markets; (ii) improving fiscal risk management and public procurement; and (iii) supporting social inclusion and climate change action. The operation is central to the World Bank Group's (WBG) overall engagement with Uzbekistan, as outlined in the 2022-2026 Country Partnership Framework (CPF). Kreditanstalt für Wiederaufbau (German Development Bank) (KfW) is expected to provide parallel financing in support of this operation.

2. **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. Supported by its continuous program of economic reforms, the country has experienced robust economic growth 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.

3. **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 two-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.

4. **The proposed operation supports government efforts to scale up action on climate change.** Uzbekistan is highly exposed to climate change and is prioritizing climate action. The Uzbekistan Country Climate and Development Report (CCDR) estimated that, without action to mitigate it, the adverse impacts of climate change could be equivalent to 10 percent of Uzbekistan's GDP by 2050. On the other hand, low-carbon sectors hold significant potential for Uzbekistan. The 2021 updated Nationally Determined Contribution (NDCs)[4] to the Paris Agreement foresee a 35 percent reduction of greenhouse gas (GHG) emissions per unit of GDP by 2030 (vs 2010 level), with action in the energy, industrial processes and product use, agriculture, forestry and other land use, and waste sectors. The 2022 Presidential Decree[5] introduces accelerated measures to improve energy efficiency, by widespread introduction of energy-saving technologies and renewable energy sources, and drastically reducing energy intensity sectors of the economy. For climate change adaptation, the NDC priorities include climate resilience of agriculture, and sustainable use of water and land resources for the stable functioning of vital ecosystems and their services.[6] This operation supports the implementation of the CCDR recommendations[7] and Uzbekistan's actions to tackle climate change on mitigation and adaptation. This DPO supports several reforms aimed at lowering Uzbekistan's GHG emissions intensity by setting energy efficiency standards in industrial production, boosting the adoption of renewable energy generation, promoting modal shift from road to rail transport and climate-smart agriculture, and mobilizing investments in climate action. Additionally, regulatory frameworks for environmental assessment and air quality are upgraded to target GHG emissions. Other economy-wide actions include incorporating climate change risks into the fiscal risk statement, revising the water and land codes to embed climate resilience into sector objectives, and mobilizing climate finance through state funds and corporate bonds.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

[4] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf
[5] https://www.fao.org/faolex/results/details/en/c/LEX-FAOC197281/
[6] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf
[7] See Annex 5 of this document and https://openknowledge.worldbank.org/entities/publication/686d0297-b311-4296-ab33-51d1859c6b32

5. **Uzbekistan's economy has remained resilient despite global geopolitical and economic tensions arising from Russia's invasion of Ukraine.** Amidst those challenges, Uzbekistan's GDP growth rose to 6 percent in 2023. Growth was driven primarily by government expenditures, private consumption, and investment specifically in the mining sector following the increase in gold prices. In 2022 and 2023, the government maintained an expansionary fiscal stance. Nominal expenditures grew by 18.1 percent - primarily driven by the increase in external debt costs, public sector wages, and social and economy related spending. Investment growth was primarily underpinned by the growth in machinery and equipment imports employed in industrial sectors, primarily in mining. Total real investment growth accelerated to 22.1 percent in 2023, increasing its share in GDP to 34.8 percent, up from 31.3 percent in 2022. While private consumption contributed to overall growth, the real growth in private consumption slowed to 6.1 percent in 2023, down from 11.1 percent in 2022, reflecting the lower remittances inflows, as remittance inflows receded to their pre-2022 levels of 13 percent of GDP (in nominal terms). At the sectoral level, real agricultural and industrial output growth accelerated and reached 4.1 percent and 6 percent growth rates, respectively. The growth in industrial output was driven primarily by manufacturing output along with utilities, as mining output slowed. The slowdown in real growth of major services subsectors such as transportation, and information and communication, led to the slowdown in growth of services sector output by 0.2 pp. to 6.8 percent in 2023. Similarly, the strong demand for housing along with commercial real estate has slowed, which led to a lowering in construction work and ultimately lowering in real construction output growth by 1.9 pp., to 6.4 percent in 2023. The pace of overall growth has maintained momentum into the first quarter of 2024, as GDP growth rose to 6.2 percent year-on-year (y-o-y), driven by real sectoral output growth across industry, construction, and services at 6.5, 6.8, and 6.8 percent (y-o-y), respectively. Industrial output growth was supported by the increase in industrial production arising from growth across manufacturing, mining, and utilities, while the strong demand for housing and commercial real estate picked up and buoyed real construction output growth.

6. **The demands of Uzbekistan's rapid development mean it maintains a current account deficit, which is financed by capital inflows, and supported by ample international reserves**. The current account deficit widened from 3.5 percent of GDP in 2022 to reach 8.6 percent of GDP in 2023 as a rapid growth in imports by 2.44 pp. of GDP to reach 46.3 percent of GDP (in nominal terms), particularly machinery and equipment, declining remittances compared to 2022, higher net interest payments on foreign debt, and repatriation of earnings by foreign-owned enterprises more than offset buoyant export growth by 1.8 pp. to reach 27.6 percent of GDP. The Uzbek Soum depreciated by 10 percent against the US dollar in 2023, but remained more stable in the first half of 2024, depreciating by 1.8 percent and 3.4 percent against the US dollar and Russian ruble between January and June 2024, respectively. Uzbekistan's international reserve position remains adequate. Gross international reserves declined by U$S1.2 billion over 2023 to US$34.6 billion, representing 10 months of import cover, and increased to US$37.4 billion in at the end of July 2024.

Table 1: Uzbekistan - Key Macroeconomic and Fiscal Indicators

	2021	2022	2023	2024	2025	2026	2027
				Est.		(Projection)	
National Income and Prices							
Real GDP growth (annual percent change)	7.4	5.7	6.0	5.4	5.5	5.5	5.5
Consumer price inflation (percent, End-of-period [EOP])	10.0	12.3	8.8	11.5	8.7	5.4	5.4
						(% of GDP)	
External Accounts							
Current account balance	-7.0	-3.5	-8.6	-7.6	-7.1	-6.2	-5.4
Exports of goods and services, of which	23.6	25.8	27.6	27.1	26.8	27.1	27.4
Gold	5.9	5.1	9.0	7.4	6.3	6.1	5.8
Imports of goods and services	40.1	43.9	46.3	45.4	43.7	42.4	41.2
Foreign direct investment, net	3.3	3.2	2.4	3.2	3.5	4.0	3.9
Gross international reserves (GIR) (US$ million, EOP)	35,139	35,768	34,565	32,182	31,099	30,751	31,094
GIR (months of import cover)	15.1	12.1	9.9	8.5	7.7	7.0	6.6
Fiscal Accounts							
Revenues	25.9	30.8	29.2	29.2	29.2	29.7	30.1
Expenditures (including policy lending)	31.7	34.3	33.9	31.9	31.0	31.6	32.0

Budget Primary Balance	-5.7	-3.5	-4.8	-2.8	-1.8	-1.8	-1.9
Interest Expenditure	0.6	0.8	1.2	1.7	1.8	1.8	1.6
Overall Fiscal Balance	-5.8	-3.8	-5.5	-3.7	-2.9	-3.0	-3.0
Total public and publicly guaranteed debt (EOP)	35.3	33.9	36.3	35.7	34.7	32.5	31.7
Monetary Accounts (Annual percent change)							
Broad money growth	29.7	30.2	12.2	16.1	18.8	19.1	19.3
Credit to the economy	18.4	21.4	23.2	16.7	18.9	19.5	19.7
Memorandum Items (Levels)							
Nominal GDP (US$ billon)	69.6	81.2	90.9	99.4	111.5	123.9	137.3
Exchange rate (UZS/US$, period average)	10,609	11,047	11,736				
Exchange rate (UZS/US$, EOP)	10,838	11,225	12,339				

7. **The fiscal deficit in 2023 was larger than planned, but significant steps have been taken recently to consolidate expenditures.** The fiscal deficit widened from 3.8 percent in 2022 to 5.5 percent of GDP in 2023, exceeding the 3-percent budget target. This was driven by an increase in government expenditures particularly on energy related spending, social safety nets, debt servicing, public wages, and public investment. Public administration spending was driven by the higher-than-budgeted increase in public sector wages following the implementation of the minimum wage bill, which saw wage increases across both education and health sector workers. Higher-than-budgeted targeted social assistance programs in response to the energy and food crisis drove an increase in social safety net spending, in protecting the most vulnerable households. Higher fuel imports in the first half of 2023, along with the delayed energy tariff reform for removal of energy subsidies to enterprises, led to higher economic expenditures. Tightening of global financial conditions contributed to increased interest costs on external debt, which rose from 0.8 percent of GDP in 2022 to 1.2 percent of GDP in 2023. Government revenues decreased – from 30.8 percent of GDP in 2022 to 29.2 percent of GDP in 2023, driven by lower tax revenues in line with the reduction on excise taxes across several products (including liquefied gas) and lowering of the Value-Added Tax (VAT) rate from 15 to 12 percent. The first steps have been taken in decreasing expenditures, as the energy reforms have seen the start of the gradual phase-out of subsidized energy prices. At end-2023, gross budget financing needs amounted to US$8.3 billion (8.5 percent of GDP) which were financed primarily by external debt, through Euro bond issuance of US$1 billion and the rest through development partners (including international financial institutions) lending. Total public and publicly guaranteed (PPG) debt increased from 33.9 percent in 2022 to 36.3 percent of GDP in 2023. The vast majority (94 percent) of PPG debt is external. The government has a legal debt ceiling of 60 percent of GDP.

8. **The Central Bank of Uzbekistan (CBU) continues to maintain a tight monetary stance in its continued commitment to inflation targeting.** Inflation in 2023 declined to its lowest year-end level of 8.8 percent for 7 years. In the first half of 2024, energy tariff hikes, necessary to bring down energy subsidies for households, have raised prices, with inflation moving back up to 10.6 percent (y-o-y) in May and June 2024 and 10.5 percent in July. While the impact of this one-off price change should dissipate in the medium term, the CBU is likely to remain cautious that higher inflation does not become persistent. The nominal policy rate had remained at 14 percent since mid-March 2023 and was reduced to 13.5 percent in July 2024 in light of lower-than-expected core inflation and limited inflationary risks this year.

Table 2: Uzbekistan - Fiscal Operations

		(% of GDP)			Est.	Proj.	
Total Revenues, of which:	25.9	30.8	29.2	29.2	29.2	29.7	30.1
Tax revenues, of which	17.5	16.9	16.8	17.5	17.5	17.8	18.1
Income and profit taxes	7.5	6.8	6.6	7.2	7.2	7.3	7.4
Property taxes	0.8	1.0	1.1	1.0	1.0	1.0	1.0
Value-added taxes	4.9	5.5	5.3	5.3	5.3	5.4	5.5
Excise taxes	1.7	1.4	1.4	1.6	1.6	1.6	1.6
Mining Taxes	2.0	1.5	1.4	1.7	1.7	1.7	1.7
Taxes on international trade	0.6	0.6	0.9	0.7	0.7	0.7	0.7
Other tax revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenues (tax and non-tax), adjustments*	4.5	9.7	8.0	7.4	7.4	7.6	7.6
Funds	3.9	4.2	4.5	4.3	4.3	4.4	4.4

Social security contributions	3.4	3.5	3.6	3.6	3.6	3.6	3.7
Other	0.5	0.7	0.8	0.7	0.7	0.7	0.7
Total expenditures, of which:	31.7	34.3	33.9	31.9	31.0	31.6	32.0
Social safety nets	6.7	9.1	6.9	6.6	6.4	6.6	6.7
Social and cultural expenditure	9.1	8.6	8.4	8.5	8.3	8.4	8.6
Public investment	6.9	3.9	4.0	5.4	5.2	5.3	5.4
Public administration	1.2	1.3	1.4	1.3	1.3	1.3	1.3
Economic Affairs	2.8	2.4	3.3	2.9	2.9	2.9	3.0
Other expenditure and adjustments*	5.0	9.1	9.9	7.2	6.9	7.1	7.2
Primary Balance	-5.7	-3.5	-4.8	-2.8	-1.8	-1.8	-1.9
Interest expenditure	0.6	0.8	1.2	1.7	1.8	1.8	1.6
Overall fiscal balance	-5.8	-3.8	-5.5	-3.7	-2.9	-3.0	-3.0
Total Gross Financing Needs, o/w	12.9	9.4	14.7	13.6	12.0	10.4	8.8
Domestic	0.5	-0.9	1.6	3.3	2.2	2.1	1.4
External	12.4	10.4	13.1	10.3	9.8	8.3	7.4

Notes: * From 2022, off-budget accounts of ministries and agencies were included in the budget. Adjustments include the budget data adjusted for financing operations, such as privatization of state-owned enterprises (SOEs), repayment of government policy loans or Uzbekistan Fund for Reconstruction and Development (UFRD) loans, equity injections/purchases (e.g., banks, SOEs) by UFRD, externally financed lending.

9. **The financial sector remains adequately capitalized, as capital adequacy ratio in the banking sector increased from 16.7 percent in 2023 to 17.3 percent as of July 2024, significantly above the Basel III requirement (8 percent) and the regulatory minimum of 13 percent.** Additionally, the ratio of capital to risk-weighted assets has increased from 17 percent at end-2023, to 17.25 percent as of July 2024. Credit supply continues to expand with 17.0 percent growth (y-o-y) in 2024Q2, as loans to individuals and businesses grew by 37 percent and 9.4 percent (y-o-y), respectively. The ratio of non-performing loans to gross loans has increased from 3.8 percent at end-2023 to 3.96 percent in end-June 2024. Domestic deposits continued to grow, supporting the liquidity of banks, as domestic deposits accelerated to reach 18 percent in 2024Q1, up from 11.5 percent growth at end-2023. Though those metrics are commendable, the financial sector is dominated by state-owned banks, which account for roughly 70 percent of total credit, 50 percent of total deposits and 67 percent of banking assets as of 2024 first quarter.

10. **The unemployment rate declined in 2023 to 6.8 percent, down from 8.9 percent in 2022, and average real wages rose by 7.8 percent.** The decline in unemployment rate was driven by the services sector, with significant contribution from services (e.g., trade, health, education, social services) and construction. On the other hand, real wage growth was driven by a combination of increased labor demand and a shortage of skilled workers. The growth in real wages in 2023 contributed to the projected decline in poverty rate in 2023 to 4.5 percent, down from 5 percent in 2022.[8]

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

11. **Uzbekistan's economy is expected to grow by 5.4 percent in 2024 and will remain at a similar rate in the medium term.** The deceleration in growth reflects the fiscal consolidation planned by the government, but with sustained strong domestic demand from households. Medium-term growth would be driven by private sector investments as liberalization reforms in agriculture, chemicals and services begin to take root. Investments are expected to be buoyed further by higher foreign direct investment (FDI) inflows. Furthermore, growth in the mining and construction industries, which are underpinned by strong fixed investments in these sectors with construction growth further supported by increased demand for housing, are expected to further drive growth.

12. **Inflation is projected to be higher in 2024, due to rising domestic energy prices, before gradually declining.** Inflation is projected to rise to 11.5 percent in 2024, due to the high passthrough of energy prices to consumer prices. Inflationary pressures are then expected to ease in 2025 and 2026 with the CBU expected to maintain an appropriately tight monetary policy. As a result, inflation is expected to move towards the CBU's target of 5 percent by 2027.

13. **The current account deficit is projected to moderately narrow in 2024 to 7.6 percent of GDP as the trade**

[8] Measured at the lower-middle income poverty line of US$ 3.65 per day, 2017 PPP.

deficit narrows, supported by the deceleration of import growth resulting from the stabilization of imports for machinery and equipment. Fiscal consolidation, moderation of bank lending growth, the reversal of temporary increases in imports from Russia due to sanctions and complication of payments processes, export yields from prior investments, and continued structural reforms are contributing factors to the gradual moderation of current account deficit. Additionally**,** lowering of the trade deficit will also be buoyed by an increase in gold prices in 2024[9] – Uzbekistan's main export commodity. In the medium-term, the current account deficit is expected to narrow further averaging 6.2 percent of GDP between 2025-2027, driven by further lowering of the trade deficit as nominal import growth decelerates further (7.7 percent period average growth) while nominal export growth accelerates (12 percent period average growth). International reserves are projected to slightly decrease in 2024 to US$32 billion, representing 8.5 months of import cover.

14. **The fiscal deficit is projected to decrease to 3.7 percent of GDP in 2024, as energy price subsidies are reduced, and improvements in targeted social assistance are made.** In the medium-term, the fiscal deficit is projected to further decrease as the government commits to fiscal consolidation by reining in expenditures, reducing public investments, and increasing revenues. Decreasing expenditures will come from lowering health expenditures and aligning to their pre-pandemic levels, lowering policy lending, and decreasing public investments as the expansion of public-private partnerships (PPPs) in energy, infrastructure, and education fulfill investment requirements in these areas. Higher revenues are expected to arise from a broadening of the tax base by eliminating exemptions and improving compliance, which would see an increase in both corporate and individual income tax revenues (from 6.6 percent in 2023 to on average 7.3 percent of GDP during 2024-27). Fiscal consolidation is likely to impact growth negatively, as public investments and overall government consumption decrease. However, the government will seek to mitigate this impact as much as possible by focusing on reducing inefficient spending and reducing spending in areas where the private sector can step in. The government is currently leveraging capacity development support for improvements in revenue administration and public financial management, and has made the VAT system more efficient by decreasing the number of VAT exemptions.

Table 3: External Financing Requirements and Sources (% of GDP) (Estimates – June 2024)

	2022	2023	2024	2025	2026
			Est.	Proj.	
Gross External Financing Needs, o/w	**11.2**	**15.6**	**15.1**	**13.7**	**12.5**
Current Account Deficit	3.5	8.6	7.6	7.1	6.2
Amortization payments	7.7	7.1	7.4	6.6	6.3
Financing Sources, o/w	**11.2**	**15.6**	**15.1**	**13.7**	**12.5**
Net FDI flows	3.2	2.4	3.2	3.5	4.0
Debt disbursements	6.3	8.1	6.6	6.0	5.3
Privatization proceeds	0.6	0.5	0.8	0.7	0.6
Use of reserves	1.6	3.0	2.4	1.0	0.3
Errors and omissions	-0.5	1.6	2.1	2.5	2.3

Net errors and omissions include other sources (assets and liabilities), needs, including accrued interests for hydro plants.
Source: IMF-WB staff estimates

Table 4: Budget Financing Needs in 2024, tentative (US$ millions) (Est. – June 2024)

	2024
Needs	**7,877**
1. 2024 Budget Deficit (estimate)	4,430
2. Amortization due on public debt	3,447
Sources	**7,877**
1. Debt disbursements	**7,877**
GoU Eurobonds (external and domestic)	**1,969**
Development partner project disbursements	**925**
Development partner budget support financing, o/w	**2,500**
World Bank DPO (this operation)	800
ADB	850
JICA	500
KFW and others	350
2. Domestic (T-bills, privatization proceeds, Gov. deposit withdrawals)	**2,483**

15. **The June 2024 debt sustainability analysis (DSA) prepared jointly by the World Bank (WB) and the International Monetary Fund (IMF) assesses Uzbekistan's risk of external debt distress to be low, with strong debt carrying capacity.** Similarly, the overall risk of public debt distress for Uzbekistan is also assessed as low.[10] The most severe risk to Uzbekistan's debt sustainability are contingent liabilities that could arise from non-guaranteed SOE debt, which is particularly substantial, and debt of PPPs. Neither of them is included in PPG debt. PPG debt is expected at 35.7 percent of GDP by end-2024, further declining in the medium term – and expected to fall to 30.4 percent by end-2029. This is underpinned by the GDP growth outpacing the growth in official borrowing. Total external debt (including

[9] World Bank Commodity market outlook predicts gold prices to increase by 8 percent in 2024 to reach $2100/toz.
[10] PPG debt here includes debt of central, regional, and local governments; extra-budgetary funds (including the state pension fund); and guaranteed debt of SOEs. It does not include debt of PPPs and non-guaranteed debt of SOEs.

private debt) is expected to decline in the medium term – to 51 percent of GDP by end-2029 from 60 percent in 2023. Under stress testing, Uzbekistan's PPG debt remains resilient. While a combination of shocks to GDP growth, fiscal deficit, exports, transfer, and FDI flows would constitute a significant impact to the present value (PV) of the debt-to-GDP ratio, even under this scenario, debt-service-to-export ratios still remain below the risk of debt distress thresholds. While PPG debt remains sustainable, it is vulnerable to the realization of contingent liabilities that could arise - particularly from non-guaranteed debt of SOEs and debt of PPPs. These shocks would significantly raise debt-service-to-revenues ratio and debt-to-revenues ratio. However, even under this scenario, the present value of debt-to-GDP would remain significantly below the 70 percent benchmark.

Figure 1 (a). External PPG Debt Sustainability Analysis
PV of debt-to-GDP ratio

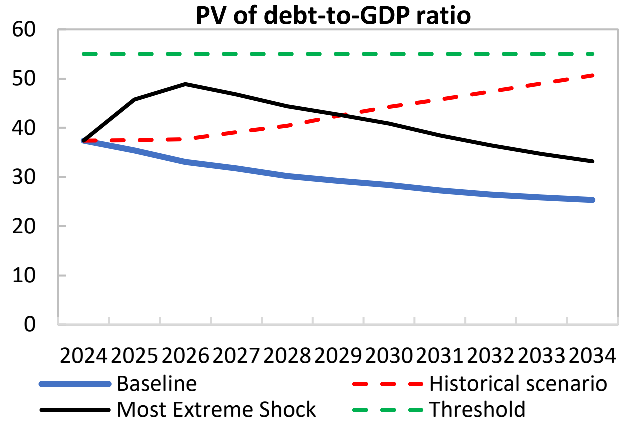


Figure 1(b). Total PPG Debt Sustainability Analysis
PV of Debt-to-GDP ratio

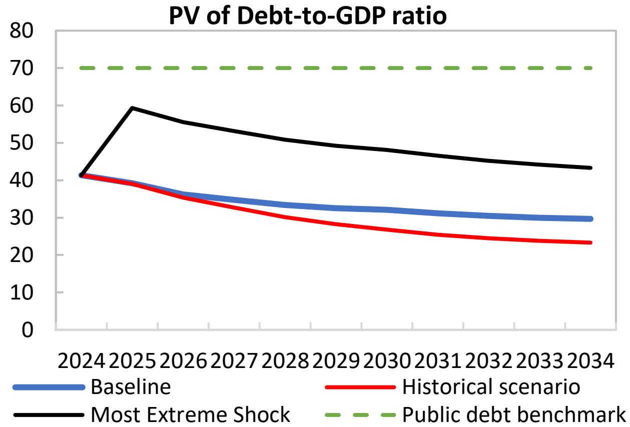


Figure 1 (c). External Debt Service-to-Revenue ratio

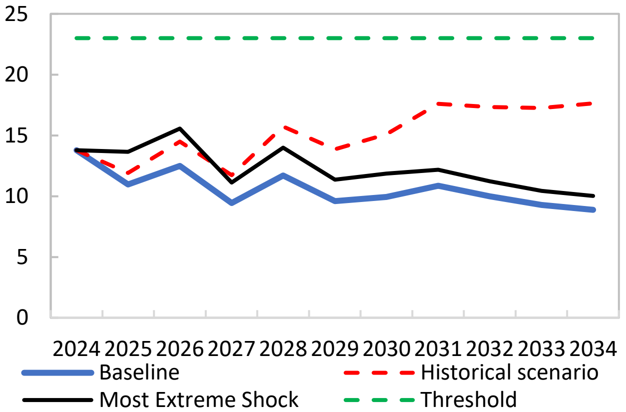
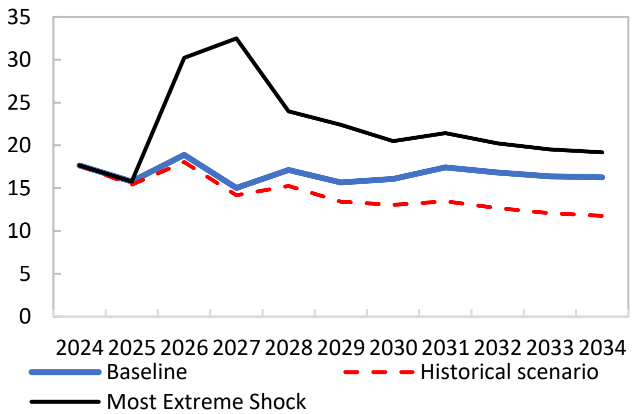


Figure 1 (d). Total Public Debt Service-to-Revenue ratio



Source: IMF-WB DSA (2024)

16. **Uzbekistan's macroeconomic framework is adequate for the purpose of the proposed operation.** Uzbekistan has weathered multiple shocks while maintaining strong fiscal and external buffers, illustrating the adaptive capacity of macro-fiscal policy making. Medium-term growth is expected to be brisk. While the fiscal deficit remained elevated in 2023, the authorities are committed to bringing it to their 3 percent target by 2025. Public debt was relatively low at 36 percent of GDP in 2023, and Uzbekistan maintains access to financial markets. Uzbekistan's ample foreign exchange reserves provide the authorities space to help smooth excess exchange rate volatility and manage short-term external shocks. These buffers are particularly important in the context of an expected, sizeable current account deficit. The government remains committed to continuing its ambitious reform program in the medium term, in addition to continuing the energy tariff reforms, the government intends to move ahead with the privatization of large state-owned banks.

17. **The medium-term outlook remains vulnerable to further uncertainties and substantial external and domestic downside risks**. External risks include slowdown in global growth, especially in major trading partners – Russia and China. Domestic risks include a slower pace of fiscal consolidation, materialization of contingent liabilities from state-owned banks and enterprises, and PPPs. Upside risks include higher global gold and other prices for

Uzbekistan's exports, and stronger productivity growth due to ongoing structural reforms. The CBU is mitigating risks with commitment to a robust monetary stance and improved monetary transmission, and new macroprudential measures included more capital requirements and debt-service-to-income ratio limits.[11] Real income growth could be constrained if the inflationary pressures from the energy tariff reform are higher than expected. Consequently, the tight monetary stance to restrain inflation, along with fiscal policies for the planned fiscal consolidation, could weigh on growth and unintentionally become contractionary. It will be important to continue implementing structural reforms to stimulate private sector investment and raise potential growth, including the continuation of the privatization program of the still-large SOE sector and the continuation of reforms to remove regulatory impediments domestically and to improve market access for goods and services internationally. It is important for the CBU to maintain transparency of monetary policy, including its commitment to inflation targeting, which will help anchor inflation expectations. In addition to these monetary measures, safeguarding CBU independence will continue to facilitate de-dollarization and rein in the foreign currency denominated debt. Furthermore, accelerating reforms within the financial sector, particularly limiting the dominance of state-owned banks through privatization, and improving interbank market, would improve capital market development and financial intermediation.

2.3. IMF RELATIONS

18. **The WBG and IMF continue to collaborate closely in support of Uzbekistan's reforms.** The WBG has been providing extensive technical support on Public Financial Management (PFM), debt, tax administration agenda, areas on which it closely coordinates with the IMF. The IMF has been offering extensive technical assistance (macroeconomic modeling, national accounts and further statistics, fiscal policy, and tax policy) to the government and has been carrying out staff monitoring, with the 2024 Article IV consultation published in July (see Annex 2).

3. GOVERNMENT PROGRAM

19. **Uzbekistan's national development strategy sets out ambitious plans for the reform of the economy, public service, and the nation as a whole.** Launched in 2023, the "Uzbekistan 2030" Strategy reiterates the government's intention to take bold steps to support rapid, private-sector-led growth, with the aim of reaching upper-middle-income status by 2030. The strategy covers five priority areas: (i) creating decent conditions to unlock the potential of every person; (ii) ensuring prosperity through sustainable economic growth; (iii) environmental protection and sustainability; (iv) ensuring the rule of law; and (v) peace and security. Amongst many reforms set out, the authorities intend to liberalize leading industries, develop the financial sector, strengthen property rights, further the green economy transition, continue to improve the social protection system, and support women's active participation in society.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

20. **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 management, especially relating to PPPs and public procurement. 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.

21. **This operation is aligned with the goals of the Paris Agreement. The DPO is aligned with Uzbekistan's**

[11] See IMF 2024 Article IV Consultation for Republic of Uzbekistan.

country climate action commitments and priorities (2021 NDCs,[12] 2022 Presidential Decree[13]) and with the recommendations of the CCDR.[14] Regarding mitigation, reforms supported by the DPO are not expected to cause significant increases in GHG emissions or create barriers to the low-carbon development path. The reforms in energy and transport sectors will directly decrease GHG emissions, as well as the reforms in agriculture and air pollution. Regarding adaptation, development objectives of the reforms supported by the DPO are not at risk from the impacts of climate change in Uzbekistan. The reforms in agriculture and water sectors are directly addressing climate risks and supporting adaptation, while Environmental Impact Assessment (EIA) and fiscal risk reforms introduce climate risks in the relevant assessments, and reforms in support of FDIs aim at mobilizing capital for climate action. Therefore, all reforms supported by this operation are aligned with the goals of the Paris Agreement on mitigation, adaptation, and climate resilience. Details are provided in Annex 5.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Creating Markets

22. **The first pillar advances the crucial market transition in key sectors.** Recent reforms have improved the business environment, but the private sector is still limited by the state's significant control over most markets through regulatory means or the dominance of SOEs. To enhance private sector participation and market competition, it is crucial to remove barriers to competition, trade, and foreign direct investment, and to ensure open access to key sectors of the economy that have been controlled by the state. Reforms in the energy, railway, chemicals, and agriculture sectors, along with the good practices introduced with the new Investment Law, are expected to support an expanded role of both foreign and domestic private actors in Uzbekistan.

23. **The reforms program supported under this pillar has proceeded largely as expected at the time of the first DPO (DPO1), except for a delay in the privatization of a large fertilizer company.** Significant reforms have been implemented in the areas of energy transition, railway sector reforms, land tenure security, and improvement business environment. Compared to the indicative triggers envisaged at the time of DPO1, the government has experienced delays in preparation of the restructuring and privatization strategy of NavoiAzot, which will require further consultations with relevant stakeholders and thus the relevant trigger (Indicative Trigger #3) has been dropped from the program. The government has expressed its commitment to continuing reforms to raise private participation in the chemicals sector, and IBRD and the International Finance Corporation (IFC) will continue to support these efforts. In fact, in 2024, the authorities have made good progress in other important reforms in the chemicals sector. Notably, the government has removed the monopoly rights of the SOE, UzKimiyoImpEx, to import inputs for and export chemicals products from UzKimyoSanoat (UKS) enterprises. In the short term, the Government also expects to finalize privatization of two other important SOEs.[15] The approval of the restructuring and privatization strategy of NavoiAzot is expected to proceed as soon as possible, but it is no longer expected in 2024. Given their ongoing efforts in this area, the results indicator for this policy area has been retained. Another change in the reforms supported under this pillar is the separation of Indicative Trigger #1 into two prior actions, reflecting the importance of each of these reform agendas, particularly the withdrawal of large energy subsidies.

<u>Policy Area:</u> Implementing energy tariff reform and adopting a new Electricity Law

24. **Rationale: Below-cost pricing, underinvestment, and limited competition are significant challenges in Uzbekistan's energy sector.** Rising energy demand of a fast-growing population and economy[16] has laid bare the frailties of the energy sector. Annual economic growth projected at 5.5 percent, population growth averaging 1.9 percent annually, and the effects of climate change are expected to impose further pressure on the energy system.[17] In the previous DPO, the government took landmark steps in the transition to a competitive energy sector of establishing a new, standalone energy regulator, unbundling JSC National Electric Grid of Uzbekistan (NEGU) and

[12] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf
[13] https://www.fao.org/faolex/results/details/en/c/LEX-FAOC197281/
[14] https://openknowledge.worldbank.org/entities/publication/686d0297-b311-4296-ab33-51d1859c6b32
[15] Dehkanabad Potassium Plant (Presidential Decree PP-168, March 18, 2022) and Kyzylkum Phosphorite Complex (https://davaktiv.uz/en/news/additional-information-about-the-stage-of-accepting-binding-offers-of-the-privatization-process-of-the-state-share-in-qizilqum-fosforit-kompleksi-llc).
[16] The demand for electricity in Uzbekistan is projected to grow rapidly, alongside with the economy, from 83 Terawatt hours (TWh) in 2022 to 143 TWh by 2030.
[17] World Bank Group, Uzbekistan CCDR.

increasing energy tariff rates for legal entities. However, residential tariffs remained well below the cost recovery level, and the sector needs a clear and modern legislative framework to encourage private sector participation and investment. Empirical evidence indicates that without legislative support, such as an electricity law, the reform of the sector would be difficult to sustain and vulnerable to reversals.[18]

25. Program: A new package of reforms has consolidated Uzbekistan's transition to a competitive energy market. First**,** to improve the financial viability of the sector and strengthen the legal and regulatory framework of the energy sector, a substantial energy tariff adjustment took place for residential customers effective on May 1, 2024, with the introduction of a block tariff concept, with higher tariffs at higher levels of consumption,[19] with the aim of achieving full cost recovery by the end of 2026, based on a cost-of-service methodology (Results Indicator (RI) 1).

Prior Action #1: *To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024.*

26. Second, the government has adopted additional measures to protect the vulnerable groups from the tariff increases. Specifically, the Government of Uzbekistan (GoU) introduced a lifeline tariff concept through setting the tariff for the first block (social norm) at 450 UZS (~3.6 US¢)/kWh up to 200 kWh and 650 UZS (~5.1US¢)/m^3 up to 100/500 m^3 for summer/winter season. Additionally, the government has approved specific support for households registered in the Single Registry of Social Protection, including the provision of a one-off grant of 270,000 UZS in November. These measures also include a monthly compensation for an additional 250 m3 of natural gas and 150 kWh of electricity above the social norm during the heating season.[20]

27. Third, a new Electricity Law has been submitted to Parliament and approved, marking a significant shift towards a sustainable electricity sector in Uzbekistan. This new law aims to foster competition, enhance the efficiency, reliability, safety, and affordability of electricity, encourages private investment in the sector, focusing on renewables and energy efficient technologies, and includes provisions for consumer protection. It enshrines the principle of full cost recovery in tariff-setting, with future tariff policy now mandated to follow this principle, which will promote efficient use of energy through cost-reflective electricity pricing and public supervision. The law places a strong emphasis on renewable energy, to be financed and developed by the private sector, and energy efficiency, mandating that the energy ministry will further promote renewable energy generation and energy saving technologies, with further details to be outlined in secondary legislation. Additionally, the law includes specific clauses and provisions to encourage investments in the energy sector primarily in renewable power generation[21] for enhancing electricity security[22], promoting energy efficient technologies and renewable energy[23], supporting the utilization of renewable sources and waste materials (e.g. agricultural residues and organic by-products), and thus reducing GHG emissions.

Prior Action #2: *To further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 2024; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14, 2024 to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.*

28. Expected results: The measures in this operation are expected to reduce GHG emissions, improve the sector's legal, regulatory, and institutional framework, tariff cost recovery, and level of competition. In addition to

[18] Foster, Vivien; Rana, Anshul. 2020. Rethinking Power Sector Reform in the Developing World. Sustainable Infrastructure; Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/32335.
[19] **Electricity**. *Block 1*: up to 200 kWh priced at 450 UZS/kWh; *Block 2:* 201-1,000 kWh priced at 900 UZS/kWh; *Block 3*: 1,001-5,000 kWh priced at 1,350 UZS/kWh; *Block 4*: 5,001-10,000 kWh priced at 1,575 UZS kWh; *Block 5*: 10,00 kWh and above priced at 1,800 UZS/kWh.
Natural Gas. *Block 1*: up to 500 m3 during heating season (Nov-Feb) and up to 100 m^3 during non-heating season (Mar-Oct) priced at 650 UZS/m^3. *Block 2*: 501-2,500 m3 during heating and 101-2,500 m^3 during non-heating season priced at 1,500 UZS/m^3; *Block 3*: 2,501-5,000 m^3 during both seasons priced at 2,275 UZS/m^3; *Block 4*: 5,001-10,000 m^3 during both seasons priced at 2,275 UZS/m^3; *Block 5*: 10,000 m^3 and above during both seasons priced at 2,600 UZS/m^3.
[20] Decree of the Cabinet of Ministers on energy tariff increase: https://lex.uz/uz/docs/6884060.
[21] Clause No. 24 of the Law defines that the power station can be either state-owned or private owned.
[22] Clauses No. 58 and No.59 of the Law establish the creation of a specially authorized state body that will be responsible for the development of electricity generation from renewable energy sources and the combined generation of electricity and heat for energy security purposes.
[23] Clause No.5 of the Law sets the main areas of state policy in the field of electricity development.

the tariff adjustments already made, the future tariff increases are expected to ensure achievement of full cost recovery by end-2026. As a result of systematic tariff adjustments, the cost coverage of retail tariffs of natural gas and electricity are expected to increase from the levels of 44 percent and 61 percent as of September 2023 to 89 percent and 89 percent by the end of 2025, respectively. This will increase further towards reaching full cost recovery by end-2026 (RI 1). The introduction of the social norm is expected to benefit poorer households, as defined by those who are on the 'social registry', i.e., eligible for social assistance benefits (RI 2). The implementation of these reforms is being supported by an extensive WBG engagement in the sector, including analytical support, the WB iCRAFT[24] and E-START[25] investment projects, amongst others.

Policy Area: Strengthening the railway sector's competitive and institutional environment

29. Rationale: The regulation of the railway sector remains a critical objective for the sector's growth and efficiency. Institutional reforms supported under the last operation kicked off the modernization of the rail sector, necessary due to increasing performance inefficiencies and uncertainty regarding financial and operational sustainability. The railway market is currently monopolized by O'zbekiston Temir Yo'llari (OTY), or Uzbekistan Railways, an SOE. Performance indicators show OTY is inefficient, with staff productivity in 2022 only about 15 percent of that in equivalent jobs in Russia, 30 percent of Kazakhstan, and 50 percent of Ukraine. Fleet productivity and traffic density are also lower than comparators. Without improvements in efficiency in the rail sector, passenger and domestic freight businesses are loss-making and heavily cross-subsidized by transit and import traffic. These inefficiencies, cross-subsidies, and monopolized structure call for modernization of the sector's organizational framework. Improved efficiency is essential for OTY to provide affordable, quality transport services. Additionally, it is imperative to ensure OTY can continue to compete in the cargo market and maintain a high market share.[26] The decarbonization of the Uzbek transport system counts on the use of the already electrified railway system. As a low-carbon transport mode, rail will be instrumental in achieving transport decarbonization goals. Under current conditions and technology, railways generate 6 times less CO_2 emissions per ton-km transported than trucks. Additionally, about 40 percent of the network is already electrified and can further decarbonize once electricity generation becomes greener.

30. Program: The government has submitted a new Railway Law to Parliament. This new Railway Law continues and deepens the efforts to move to an open and efficient sector, and provides the legal foundation for the sector, aiming not only to address the objectives of OTY but also to redefine the role of the public sector by establishing a clearer regulatory and policy framework. It grants new authorities to the Ministry of Transport (MoT) and other ministries involved in the governance of the railway system. Under the new law, the government is enabled to establish Public Service Agreements (PSAs) and Multi-Annual Infrastructure Contracts with the railway operator and the railway infrastructure manager, to make fiscal transfers more transparent and well governed. A new resolution has been published in which the government lays out the specific steps to take for the implementation of a PSA with OTY. The resolution includes a transition stage in which the government will first reimburse OTY for losses related to "regulated" passenger and freight services. In parallel, MoT, Ministry of Economy and Finance (MEF), and OTY will develop a permanent PSA and the methodology for this PSA will follow international best practices on the matter. According to the resolution, the signing and inclusion in the budget of a PSA will be completed by 2026. The new law also allows for private sector participation in the sector. The Bank is providing technical support to OTY, MoT, and MEF for this program. Notably, the law includes measures to ensure that railway infrastructure is resilient to climate change impacts, such as establishing protective zones and special land use regimes in areas prone to climate hazards like landslides and floods. Emergency protocols for responding to natural disasters further enhance the resilience and safety of railway operations, helping the system remain operational amid increasing climate hazards.

Prior Action #3: : *To make railway reform more effective, the Borrower: (i) has submitted a Law on Railway Transport dated July 15, 2024 for Parliamentary approval that modifies the legal framework on competition regulation and tariff reform, promotes the shift to low-carbon transport, continues the organizational structuring of* O'zbekiston temir yo'llari (JSC Uzbekistan Railways)*, and clarifies the role of the state in the railways sector; and (ii) through its Ministry of Transport, has approved the contractual framework for the first Public Service Agreement, through a Resolution of the Cabinet of Ministers No.425, dated July 16, 2024.*

31. Expected results: These changes in the sector will enhance efficiency, decarbonization and competition in

[24] Innovative Carbon Resource Application for Energy Transition (iCRAFT) (P180432)
[25] Electricity Sector Transformation and Resilient Transmission (E-START) (P171683)
[26] The market share of the railway transport calculated in ton-km is still preponderantly in favor of railways compared with roads in Uzbekistan. In 2020, the market share of railways was 59.3 percent compared with 40.7 percent for road transport.

the sector. These reforms will enable most tariffs to be determined by the transport market (i.e., road, railway, and aviation), while establishing a mechanism for the government to ensure affordability in socially sensitive services. The reforms will strengthen the competitive position of the railway sector and support long-term decarbonization of the economy by absorbing future transport demand and diverting it away from carbon-intensive modes such as roads and aviation. The PSA will be a part of the budgetary process that will enhance transparency (RI 3). Over time, these reform actions, which align with best practices, are expected to increase efficiency and competition by aligning OTY's financials with operations, modernizing OTY's corporate structure, and ending negative practices such as cross-subsidization. These changes are also preparing the railway sector for private participation and investment, which will likely bring international best practices into the sector. In support of the achievement of the updated NDC targets, the new Railway Law aims to enhance rail transport performance and increase its modal share by focusing on safety, modernizing infrastructure, and fostering a competitive market environment. By ensuring equal access to infrastructure and encouraging public-private partnerships, the law promotes greater investment and efficiency in rail operations. This, along with its emphasis on environmental compliance and sustainable transport strategies, it will lead to a larger shift from higher-carbon modes, like road or air, to rail, therefore reducing GHG emissions. The WBG is supporting the continued implementation of these reforms with close policy dialogue and is exploring options to provide operational support to the rail sector.

Policy Area: Strengthening land tenure security

32. **Rationale: Agriculture reforms supported by previous DPOs have dismantled important elements of the state-led system, but there are still major constraints to private investment in climate-smart agriculture.** Building on a series of agriculture sector reforms supported by DPOs since 2017, the first operation of this series supported the phasing out of the crop placement system to provide more freedom to farmers to choose what crops to plant, especially those that are most well adapted to expected climate variance. The agriculture sector in Uzbekistan requires major long-term investments in irrigation and mechanization to be more climate resilient. However, farmers continue to face land tenure insecurity, which is a cause of underinvestment in improved, climate-smart technology and low productivity.

33. **Due to unsustainable farming practices and climate change effects, 3 million hectares (ha) of agricultural land has been degraded, and another 2 million ha of agricultural land salinized.** According to some projections, by 2030, water resources in Central Asia will be reduced significantly due to climate change.[27] According to the Land Code, land tenure rights may be terminated by local governments through discretionary administrative determinations beyond the basic criteria of voluntary discontinuation of existing contracts by the land users.[28] Land tenure insecurity is a major impediment for farmers to adopt climate-smart agriculture (CSA) technologies and practices. It disincentivizes farmers from adopting CSA, as the uncertainty surrounding land tenure undermines their confidence in making long-term investments needed for improving irrigation systems, land and soil quality, tree crops, sustainable livestock, and agroforestry. Without these investments, farmers remain vulnerable to the climate change impacts such as prolonged droughts, loss of livestock, reduced agricultural production, and decreased groundwater. Thus, there is an urgent need to build climate resilience through the introduction and scale-up of CSA technologies and practices.

34. **Program: The Government of Uzbekistan has submitted an amendment to the Land Code to Parliament.** Until recently, land tenure rights could be revoked based on arbitrary requirements on minimum farm yield. The practice shows that minimum crop yield requirements in Uzbekistan set for cotton were at excessively high or unattainable levels and could be used by local authorities arbitrarily against unwelcome farmers to cancel their land tenure rights. Similarly, land tenure rights could be revoked if the farmer does not renew the mandatory farmers' membership in the Farmers Council (which is an NGO, and membership should be voluntary). Because of their

[27] The total water deficit in Uzbekistan was around 3 billion m3 per year in 2015, and by 2030, it will reach 7 billion m3, according to the Ministry of Water Resources of the Republic of Uzbekistan. Presidential Decree UP-6024 of July 10, 2020, "On the approval of the Concept of Development of the Water Management Sector of the Republic of Uzbekistan for 2020-2030".

[28] These discretionary administrative reasons include: (i) suboptimal use of agriculture land (as expressed in yields below cadastral valuation norms for three years), and (ii) termination of the mandatory membership in the Council of Farmers, Dehkans, and Households (hereafter the Council). For the second point above, for instance, if a farmer refuses to become a member of the Council or is unable to pay his/her membership fees on time (thus membership is being relinquished), then the local authorities have discretionary power to terminate farmers' land tenure contracts. In Uzbekistan, such situations are often misused by local authorities. In other countries, such membership is voluntary and has no bearing on farmers' land tenure security.

discretionary character and lack of monitoring, these criteria have been subject to misapplication by local authorities, which creates insecurity on the part of land users. The government has now addressed this issue by introducing an amendment to the Land Code, which removes the minimum crop yield requirements for farmers and removes the requirement of farmers' membership in the Council to continue with their land user rights.

Prior Action #4: *To continue the liberalization of the agriculture sector and strengthen land tenure security in line with climate resilience, the Borrower has submitted amendments to the Land Code for Parliamentary approval on May 6, 2024 that remove the requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.*

35. **Expected results: Enhanced land tenure security is expected to lead to a more efficient and climate-resilient agriculture sector by facilitating long-term investments in agriculture land and a greater adoption of CSA by farmers**, resulting in triple wins of: (i) sustainably increasing agriculture productivity and income; (ii) adapting and building resilience to climate change; and (iii) reducing GHG emissions. The enhanced land tenure security will provide added incentives to farmers to adopt more CSA practices, in particular, because the latter require major upfront investments in areas such as water-saving and land improvement technologies and practices, adopting more drought- and flood-resilient crop varieties, and developing more sustainable livestock farming. In addition to increasing climate resilience, introducing more CSAs is also expected to reduce GHG emissions through better technologies and practices. These reforms are expected to result in a cumulative increase in land productivity in the sector by 15 percent by the end of 2026, compared to 2022 (RI 5). The WBG is supporting implementation of reforms via an extensive range of operational and policy support in the agriculture sector.

Policy Area: Improving the business environment

36. **Rationale: To support its economic growth, diversification and decarbonization agenda, Uzbekistan needs to attract FDI, especially to a more diverse and sustainable range of sectors.** While FDI inflows have steadily increased from US$1.8 billion in 2017 to US$2.5 billion in 2022, FDI remains concentrated in a small number of sectors, especially mining. Half of FDI has been in coal, oil, and gas over 2003-2019, and only 5 percent of FDI in renewable energy, 5 percent in labor-intensive services, 3 percent in communications, 2 percent in financial services, and 1 percent in other knowledge-intensive services. Uzbekistan has, to date, struggled to attract export-oriented efficiency-seeking investments that are crucial for economic diversification and integration into global value chains, including in green sectors. Bringing more FDI into low-carbon sectors is a key priority as Uzbekistan is a country with active climate policies that can attract higher levels of FDI in green sectors, such as renewable energy (e.g., solar, wind, hydro), low-emission transportation, and environmental technology and services. The country's ability to attract more and higher quality FDI is hindered by an outdated investment legal framework[29] that focuses on facilitating investment contracts between individual investors and the government, while falling short of providing key investment protections and guarantees in line with modern standards for all investors that would inspire investor confidence. The law also lacks a clear definition of the roles and mandates of different state bodies with respect to FDI, which hampers the effective provision of services to investors.

37. **Program: The government has submitted a new Investment Law to Parliament, which aligns with international good practice.** The new Investment Law represents a significant shift toward a more competitive investment environment, on par with the most investor-friendly destinations in the region (e.g., Armenia, Kazakhstan). The new Law strengthens the investment protection framework by including several core guarantees consistent with international good practices and introduces a pre-trial mechanism to ensure that investor grievances are resolved at an early stage before they escalate into investment disputes. Moreover, the Law also provides clear regulations for investors to seek recourse for investment related disputes through international arbitration. The Law also streamlines the institutional framework for investment promotion and facilitation, including for low-carbon investments, and inclusive investment to maximize the benefits of FDI for the country. This action is jointly supported by the WB and the IFC, with technical assistance provided. The law promotes mitigation and adaptation investments by providing targeted incentives for projects that contribute to climate action. It specifically encourages investments in green technologies, such as biological water treatment, hydropower, wind and solar energy, and waste processing, all of which are crucial for climate change mitigation, as per the CCDR recommendations and updated NDC targets.

[29] The previous FDI law adopted in 2020 has improved the legal framework for FDI by offering greater protection for foreign investors. For example, the law guarantees the free transfer of funds in and out of Uzbekistan. However, much was left to improve.

Additionally, the law supports projects aimed at improving environmental indicators, which encompass factors related to climate and ecological resilience and sustainability, which will inform and lead to actions that directly contribute to building resilience and adapting to the changing climate, reducing vulnerabilities, and enhancing the capacity of communities and ecosystems to cope with climate-related risks. This dual focus on mitigation and adaptation creates a favorable environment for investors to prioritize and engage in climate-related projects, thereby enabling and driving climate change adaptation and mitigation efforts.

Prior Action #5: *To improve the competitive investment environment, the Borrower has submitted a Law on Investments and Investment Activities for Parliamentary approval on July 15, 2024, that strengthens investor protection guarantees, investor services and increases climate change investments.*

38. **Expected results: Enacting and effectively implementing an improved investment law will reduce investment risks, boost investor confidence, and attract more investment, including in climate action.** Empirical evidence globally indicates a positive correlation between heightened investor confidence and increased levels of private investment, in particular in export-oriented and climate-friendly sectors. The new investment framework is expected to make the country a more attractive destination for FDI. The expected outcome of this action is an increase in the number of newly registered foreign companies per year from an average of 1,249 (2020-2022 average) to 1,374 by the end of 2026, reflecting a 10 percent increase. (RI 6). The IFC will support the effective implementation of this reform, working closely with major private sector investors and jointly with the World Bank engaging with the authorities in policy dialogue.

Pillar 2: Improving Fiscal Risk Management and Public Procurement

39. **This pillar advances important reforms to strengthen fiscal risk management and the public procurement system.** The supported reforms are expected to strengthen overall fiscal risk management through the publication of regular fiscal risk statements and improvements to the public procurement system through amendments to the Public Procurement Law.

Policy Area: Improving climate-sensitive fiscal risk management and public procurement

40. **Rationale: Two areas requiring strengthening in PFM in Uzbekistan pertain to the monitoring and management of fiscal risks, and the public procurement system**. In terms of fiscal risks, climate related fiscal risks are quite large and expanding rapidly in Uzbekistan. As shown in the recently published Uzbekistan CCDR, climate-related economic and natural shocks can have a major impact on the economy, and on the public sector. Climate change will exacerbate fiscal risks in Uzbekistan by directly impacting the economy through increased natural disasters (floods, landslides, droughts), temperature changes, and water scarcity, leading to reduced agricultural productivity, higher healthcare costs, and infrastructure damage. These effects are projected to reduce Uzbekistan's GDP by 0.9 percent by 2030,[30] straining economic growth, lowering tax revenues, and increasing public spending on disaster relief. This makes the development of comprehensive and transparent fiscal risk reporting, which integrates climate considerations, even more urgent. Risks also arise from the financial performance of SOEs, contractual commitments of the rapidly growing PPP portfolio, and large-scale infrastructure investments, among others. Despite growing fiscal exposure,[31] the country does not have a regular practice of fiscal risk reporting. The first DPO supported a framework for evaluating and managing fiscal risks in PPP projects, and this second operation broadens risk monitoring and management to cover all major fiscal risks and contingent liabilities. A comprehensive understanding of these risks and prudent management practices are essential for the government to ensure fiscal stability and effective public finance planning. Without regular reporting, there is limited transparency in how fiscal risks are managed. This practice is further hindered by an absence of clear guidelines or standards for reporting fiscal risks, including climate-related risks, leading to inconsistent practices across different government agencies and sectors and weak capacity to effectively monitor and report on fiscal risks, requiring technical assistance and capacity-building initiatives. In terms of public procurement, there is still a need to improve the system to deliver better value for money and to support the emerging government priority of climate aspects. The Public Procurement Law (PPL), adopted in 2018 and revised in 2021, marked an important step toward enhancing the integrity, transparency, and openness of the public

[30] World Bank, Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan (2022). Towards a green economy in Uzbekistan

[31] The WB estimates show that in aggregate, fiscal exposure from various sources grew from about 47 percent of GDP in 2017 to 60 percent of GDP in 2021 in Uzbekistan.

procurement system. However, the law lacks provisions for climate change considerations, and has several factors that reduce its effectiveness, including a fragmented procurement approach for common-use items or a comprehensive set of procurement methods, and a lack of clarity in how an e-complaints handling module is institutionalized. Addressing these issues is crucial for optimizing the public procurement system and meeting both current and future challenges.

41. **Program: The authorities have published a Fiscal Risk Statement (FRS) covering major fiscal risks and contingent liabilities, including those from SOEs, state-owned banks (SOBs), climate change, macroeconomic uncertainties and PPPs, and increased the transparency of PPP projects.**[32] The FRS will be published annually on the MEF website. The FRS covers identification and assessment of various fiscal risks, and their potential impact on the public finances, unguaranteed debt of SOEs, guaranteed bank deposits (net of deposit insurance fund assets), PPPs, and non-deposit bank liabilities, including non-deposit liabilities of SOBs. Recognizing the severity of these risks, the FRS places strong emphasis on addressing climate-related challenges as one of its central issues in macro-fiscal planning. The FRS outlines a comprehensive strategy that includes developing methodologies for assessing the fiscal consequences of climate change. This approach involves advanced macroeconomic modeling to anticipate and mitigate potential fiscal impacts under various climate scenarios. Additionally, the FRS advocates for systematic risk management through structural reforms, improved economic analysis, and policy adjustments aimed at enhancing the economy's resilience to climate shocks. By prioritizing these measures, the FRS seeks to safeguard fiscal stability in the face of escalating climate risks. In addition to the FRS, the authorities are publishing key details of all PPPs on a government website, including the private partners and contract amounts, and publishing further documents for PPPs above the threshold of US$1m, including project concept notes. While some documents on PPPs are also published online, the repository is not all-encompassing, as PPP contracts and various other documents with sensitive commercial information are retained for internal use only.

42. **The government is amending the PPL to promote sustainability and climate action while supporting private sector development.** Following the adoption of the 5-year Public Procurement Strategy (2023-2027), the government has submitted to Parliament amendments to the PPL. The amended PPL introduces sustainability as a required procurement principle, requiring that the public procurement system supports sustainable development. While subsidiary regulation will elaborate on this, these definitions are established under the National Green Taxonomy supported by the last operation, which identifies climate change adaptation and mitigation. Therefore, all green procurement is to be subject to a framework that promotes climate mitigation and adaptation. This is an important step to implement the Strategy in enhancing the integrity, transparency, and openness of the public procurement system. Greater use of competitive methods is also expected to promote private sector development.

Prior Action #6: To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; and (iii) submitted amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.

43. **Expected result: The publication of FRS reports will mark a significant step in institutionalizing climate fiscal risk management, ensuring that fiscal risks are well understood and proactively managed.** It will enhance transparency and accountability in the government. The FRS process incorporates climate considerations into fiscal planning, to promote climate-responsive fiscal policy. The expected outcome is transitioning from having no fiscal framework or methodology and no report on contingent liabilities from PPPs in September 2023 to having an approved fiscal framework, an adopted methodology for fiscal risk assessment and management, and at least two fiscal risk report covering key elements of fiscal risk by the end of 2026 (RI 7).

44. **The amended PPL enables centralized procurement and framework agreements for common-use items.** These changes address climate change, natural disasters, and improve procurement transparency. The responsibilities of the Authorized Public Procurement Authority are expanded to develop and approve Standard Bidding forms and documents, integrating sustainability principles. New provisions are expected to increase procurement scale,

[32] For this action, technical assistance is provided by the WBG, the IMF and the ADB.

economic and fiscal efficiency, and flexibility, enhancing transparency, response to emergencies and supporting private sector development. The amendment establishes a strong legal basis for sustainable and green public procurement. Results will be tracked by an increase in the share of competitive (electronic) public procurement (RI 8) and an increase in the share of green procurement, as newly defined in the amended PPL. The forthcoming World Bank Public Finance Review will be an opportunity to provide further implementation support for these reforms, while the World Bank procurement team continues to work closely with the public procurement agency on implementing their reform program.

Pillar 3: Supporting Social Inclusion and Climate Change Action

45. **This pillar supports reforms aimed at tackling climate change, strengthening social protection, and supporting vulnerable groups.** Pillar 3 supports reforms to achieve the climate change and resource use objectives of the government's National Development Strategy, and implements several recommendations in the 2023 Uzbekistan CCDR.[33] Building on the previous reforms supported under the first DPO, this operation bolsters the regulatory frameworks for efficient energy use, sustainable water management, air quality management, and environmental impact assessment, to address the urgent need to reduce GHG emissions and increase climate resilience. Following the definitions set forth in the previous DPO, new regulations governing climate bonds and financing commitments have now been adopted by state investment funds. This strategic move aims to channel more financing towards climate change initiatives. This pillar also supports reforms to increase social inclusion. The enactment of the new social insurance law and new legislation on Gender-Based Violence (GBV) will strengthen the social protection system, safeguard women against violence, and extend support to vulnerable groups. Two additional significant policy reforms that advance the government's climate change and NDC goals have been added to this operation, which were not envisaged at the time of DPO1. These are a new energy efficiency law and a new water code. Another change in this pillar involves splitting Indicative Trigger #10 into two separate actions for the EIA law and the new air quality standard, recognizing high importance of each of those actions individually.

Policy Area: Strengthening policies to support social inclusion

46. **Rationale: Uzbekistan aims to strengthen its maternity, sickness and short-term unemployment benefits using social insurance principles, and further strengthen protection against gender-based violence (GBV)**. The National Agency for Social Protection (NASP) is tasked with administering maternity, sickness, and short-term unemployment benefits, amongst other mandates. These benefits are currently either the sole responsibility of the employer (in case of maternity and sickness) or financed through general revenues to a narrowly targeted group (in case of unemployment benefits). The responsibility of providing and financing benefits resting with employers contributes to low coverage for workers in the private sector while informal employees were entirely left out. In the case of maternity benefit, it also risked an employer bias against hiring of women workers of childbearing age. Low coverage against these short-term risks can lead to permanent reductions in human development, productivity of workers and the resilience of households. As also noted in the 2023 Uzbekistan CCDR, strong social insurance programs will help protect against the loss of property and livelihoods in the event of more frequent climatic shocks. Research shows that climate related disasters such as drought or severe floods can impact vulnerable groups disproportionately, with women and children at the highest risk. Pregnant and sick individuals are more vulnerable to extreme fluctuations in temperature caused by climate change, and vice versa, worsening heat stress makes individuals more prone to sickness. Beyond social insurance, recent data shows that GBV remains a major problem in Uzbekistan. In the 9 months of 2023 after the new legislation[34] came into force, 10,462 cases of GBV were reported as offenses, disproportionately higher in rural areas.[35] Prior DPOs have supported the approval of a framework for protection orders safeguarding survivors of GBV and a law that criminalizes domestic violence. To sustain the progress, it is important that provisions for reconciliation (often referred to as mediation) under the Criminal Code are revised to address the power disparities that exist between the perpetrator and the survivor and to avoid cases where survivors are coerced into staying with the abuser.

47. **Program: The government has submitted to Parliament for approval the Social Insurance Law, which**

[33] https://openknowledge.worldbank.org/entities/publication/686d0297-b311-4296-ab33-51d1859c6b32
[34] The government passed a Law in April 2023 (Law No. 829) which criminalizes domestic violence, increase punishments for sexual crimes, make economic and psychological violence and sexual harassment criminal offense, and extend protection orders for GBV survivors to up to one year.
[35] Data for 2023. Reference: https://www.gazeta.uz/ru/2024/05/13/domestic-violence/.

provides coverage for unemployment, sickness and maternity benefits to mandatory taxpayers and voluntary participants who meet the defined eligibility criteria.[36] The eligibility for these benefits will be determined based on whether the individual has made a defined set of payroll contributions (i.e., social security contributions and personal income taxes) and if they can provide proof of eligibility (e.g., pregnancy or childbirth confirmation, sickness certificate issued via the e-health portal, or registration with the employment agency). The NASP data systems are interoperable with the tax agency, ministries of health and labor to allow for real-time verification of eligibility for these benefits once a claim is submitted. A phased implementation of these three benefits will allow NASP the flexibility to adjust design parameters based on actuarial recommendations on financial sustainability of these schemes. In addition to support from the WB, the KfW, in collaboration with German Agency for International Cooperation (GIZ), provides technical assistance to NASP. By 2025, maternity benefits will be fully financed by the state for all those who meet the eligibility conditions, and by 2026 sickness and unemployment benefits will be implemented. In implementing these programs, NASP will supplement the framework law with resolutions, where eligibility criteria, and long-term financing of these benefits (i.e., through higher payroll taxes or general revenues or a hybrid mechanism) will be outlined following actuarial projections of net expenditures over time).

48. The government has strengthened the framework to address GBV through amendments to the Criminal Code in cases of domestic violence, in addition to ensuring that reconciliation in domestic violence cases is not possible during the investigation. A request to close the case due to mutual reconciliation can be possible only by the request of the victim during the court trial.[37] The revisions also include provisions for child protection, where child abuse is also considered to be domestic violence by criminal law.[38] This brings Uzbekistan's legislative framework on GBV further in line with the Convention on Preventing and Combating Violence against Women and Domestic Violence (Istanbul Convention) and the United Nations (UN) Convention on Elimination of All Forms of Discrimination Against Women (CEDAW Convention). In comparison to the indicative trigger for this policy area, the supported action has been clarified and narrowed to rule out reconciliation only prior to a case reaching court.[39] This has been arrived at through a detailed consultation process with both members of the judiciary and plaintiffs to maintain a full set of options for the court's decision, whilst ensuring that GBV cases go to court.

Prior Action #7: *To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024 that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.*

49. Expected results: The reforms are expected to protect working-age individuals against short-term risks across the lifecycle in a fiscally sustainable manner. Introducing a contributory system for short-term risks whereby eligibility for a benefit depends on whether and how often an individual contributes (i.e., pays payroll taxes) to the tax agency will limit fiscal expenditures, incentivize workers to pay taxes in exchange for social security, and improve coverage against these risks. This change is expected to lead to increased coverage and contribute to climate responsive social protection. Given that the poorest are the most vulnerable to climate impacts such as extreme weather events, food insecurity, and displacement, these improvements are crucial for reducing their vulnerability and safeguarding their livelihoods. Furthermore, by establishing improved protections for people that are pregnant and sick, who are more sensitive to climate-change induced temperature fluctuations, this action directly targets populations to support climate change adaptation. The resulting institutional and legal improvement in the social protection system is expected to increase the share of the poorest quantile receiving some form of social protection from 79 percent in 2022 to 85 percent in 2026 (RI 9) and to increase the share of the labor force contributing to the

[36] The indicative trigger for this policy area envisaged including disability-in-work and accident benefits. NASP is working on developing programs in these areas, but the requirement to development robust identification and verification systems for these benefits is technically complex and will take significantly longer to develop. On the other hand, maternity benefits were not envisaged in the indicative trigger and have been included as part of the reform.
[37] Before court goes to decision-making/consultative room.
[38] Respected articles in Criminal and Administrative liability codes are amended by adding children as another category of victims of domestic violence, and these offences are considered as aggravating clauses.
[39] In parallel, the criminal justice sector reform risk assessment has been updated. The primary risk continues to be the institutional constraints that limit the adequate provision of justice and support services to survivors of domestic violence. The risk mitigation measure is to support the implementation of the multisectoral "Roadmap: Every woman and every girl and boy in the Republic of Uzbekistan lives a life free of violence 2023-2030," via policy dialogue, technical assistance, and projects. The roadmap was developed with support from the UN, EU and other partners.

new social insurance scheme from 0 percent in 2022 to 15 percent in 2026 (RI 10). The World Bank will support the implementation of social protection reforms through the new Innovative Social Protection System for Inclusion of Vulnerable People Project.

50. **The reforms on GBV are expected to provide more effective access to justice for survivors of GBV and eventually reduce the prevalence of GBV.** The supported reforms are expected to result in an increase in the percentage of GBV cases filed, including domestic and sexual violence, that receive a verdict that protects survivors, from 5 percent to 35 percent in 2026 (RI 11).[40]

<u>Policy Area:</u> Strengthening energy efficiency measures to reduce GHG emissions

51. **Rationale: Uzbekistan is among the most energy-intensive economies globally, largely due to historically abundant and underpriced domestically produced fossil fuel, including natural gas, which significantly contribute to GHG emissions.** The country's energy intensity is approximately 50 percent higher than that of neighboring Kazakhstan and around three times higher than that of Türkiye. High and inefficient energy use not only contributes to climate change but puts business at a competitive disadvantage and adds unnecessary costs for public sector activities, particularly as fossil fuel energy subsidies are being withdrawn. Uzbekistan has committed to reducing GHG emissions per unit of GDP by 35 percent by 2030 from 2010 levels but the policy and regulatory frameworks, especially related to energy efficiency (EE), are not yet fully in place to meet these targets. In this context, an overarching legal framework on EE, based on the good international practices, is needed.

52. **Program: The government has submitted a new Energy Efficiency Law, "On Energy Conservation and Efficient Use of Energy" to the Parliament in June 2024.** Originally adopted in 1997 [41] as the Law on "Rational Use of Energy" and subsequently amended in 2020,[42] the new law includes provisions and guidelines for energy-efficient practices in industry, transportation, residential buildings to prioritize EE improvements consistent with the country's timebound GHG targets under its NDC. The law also introduces incentives such as tax concessions or subsidies for businesses and individuals adopting state-of-the-art energy-saving technologies. The law aims to create a robust framework to drive EE improvements and support sustainable energy goals aligned with best international standards.

Prior Action #8: *To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024.*

53. **Expected results: Enacting and effectively implementing the new law will reduce GHG emissions and contribute to the achievement of the Uzbekistan's NDC target by improving EE across the energy-intensive sectors such as industry, electricity, communal services, agriculture, transport, and construction.** Energy use accounts for 80 percent of Uzbekistan's GHG emissions.[43] The new law will facilitate attainment of EE targets for major energy users (e.g., a 20 percent increase in efficiency for the industrial sector) that are needed to help achieve the primary NDC objective of reducing GHG emissions per unit GDP by 35 percent by 2030 compared to 2010). The new law is also expected to facilitate EE targets of 25 high energy-consumption SOEs and government organizations. Achievement of the 25 SOEs' targets is expected to reduce[44] the consumption of natural gas, oil, and electricity by 2026 through setting EE standards and introducing mandatory energy audits and efficiency improvements in industrial processes. In total, these 25 SOEs are expected to reduce GHG emissions by 1.5 million tCO_2 between 2025-26 (RI 12) because of their EE measures. Going further, the World Bank plans to support the government in the development of its National Energy Efficiency Vision and Strategy and National Energy Efficiency Action Plan, both focused on the assessment of EE potential in the end-use sectors, estimation of EE targets for all relevant sectors by 2040, identification of most typical short and mid-term EE measures and investment costs.

<u>Policy Area:</u> Climate resilient and sustainable water resource management

[40] Supreme Court website, which provides data on the total number of cases filed and the number of verdicts issued. From January to June 2023, of the 28,379 cases of domestic violence that have been filed, 1,404 verdicts have been issued (5 percent).
[41] Law of the Republic of Uzbekistan No.412-I dated 25.04.1997 *"On Rational Use of Energy Sources"*: https://lex.uz/docs/2054
[42] *Law of the Republic of Uzbekistan No.628 dated 14.07.2020 "On Amendments to the Law on Rational Use of Energy Sources": https://lex.uz/docs/4895653.*
[43] UNFCCC, Uzbekistan - Updated Nationally Determined Contribution, 2021: https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf.
[44] Compared to baseline without energy efficiency measures.

54. **Rationale**: **Uzbekistan's vision for the sustainable use of water is expressed in its *Water Management Sector Development Concept for 2020-30*, which is aligned with the country's commitments under the Paris Agreement.** While reforms to improve water resources management have been underway in recent years, pressures continue to rise due to climate change, the growth of the population and economic sectors, ever rising water demand, and the increasing scarcity of water resources. Over 90 percent of the country's scarce water resources are allocated to agriculture and 85 percent of surface water resources depend on water allocation from the two transboundary rivers (Amu Darya and Syr Darya). Uncertainties related to the transboundary nature of water resources, including recent developments such as the construction of the Kosh Tepa Canal in Afghanistan that will divert water from the Amu Darya, will exacerbate the situation. Water availability is projected to decrease by 30-40 percent by 2050, while irrigation demand will increase by 10-15 percent. About 2.4 million hectares (56 percent of total irrigated land) rely on electrical pumping stations for irrigation water with an annual electricity consumption of around 8 billion kilowatt-hours (about 15 percent of the country's total electricity consumption). This electricity use results in approximately 3.1 million tonnes per year of CO2 equivalent emissions.[45]

55. **Program: The government has submitted a revised Water Code to the Parliament for approval.** The revised water code aims to: (a) increase the efficiency of water resources use; (b) define the powers of state bodies in the field of water use; (c) increase the responsibility of water suppliers and water users; (d) achieve the country's water security and mainstream climate change adaptation into water resources management; (e) attract investments in the sector and encourage public-private partnerships; and (f) implement mutually acceptable mechanisms for the joint management of transboundary water resources.

Prior Action #9: *To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024.*

56. **Expected Results: The revised Water Code aims at achieving water security and societal well-being in the context of climate change by effective management and protection of water resources.** The Code addresses issues of overlapping jurisdictions, and the need for improvements to irrigation, water conservation, and water permitting procedures. Water management balances for river basins will be prepared and published (RI 13), incorporating the effects of climate change. The establishment of these water balances is a critical first step to enable water efficiency targets and programs to be developed based on robust data. The code also is expected to strengthen the state water cadaster and improve the accounting and assessment of water resources. The government aims to increase the efficiency of irrigation water conveyance to 73 percent and to equip one million hectares of irrigated lands (out of 4.3 million hectares) with high-efficiency irrigation technologies. The World Bank will continue to support implementation of reforms in this area through its operational and analytical engagements.[46]

<u>Policy Area:</u> Advancing climate change goals through the Environmental Impact Assessment and Air Quality regulatory frameworks

57. **Rationale: The current EIA regulation has been in place since 2002 and needs to be upgraded to meet the needs of Uzbekistan's vibrant growth and transition to a greener and climate resilient market economy.** The Bank team has been providing technical and legislative advice on the EIA process, supporting the Center for Ecological Expertise under the Ministry of Ecology, Environmental Protection and Climate Change (MEEPCC). Besides environment assessments for projects, climate change is a cross-cutting issue that is addressed upstream as part of strategic environmental assessments for government policies, plans, and programs, setting the direction for projects downstream. The approach for assessment includes a requirement for climate change adaptation measures to be introduced into policies, plans, and programs. Bank technical assistance also focused on pollution in the form of fine particulate matter (PM2.5), which has emerged as a leading pollutant of concern from the combustion of GHG-releasing fossil fuels and its link to serious respiratory illnesses. A PM2.5 standard is a significant advancement in air quality management for Uzbekistan, as PM2.5 was previously excluded from its air quality regulatory framework. The largely fossil fuel-based (including coal) heating system is responsible for GHG emissions and seasonal air quality hazards. Modelled PM2.5 concentrations in Tashkent were found to peak in the winter months, and the annual average concentration exceeded the World Health Organization guideline of 5 µg/m3 by more than six times. The

[45] Assuming an emission intensity of 384 tonnes of CO2 /kWh based on Uzbekistan's current energy mix (IRENA 2022)
[46] The ADB has also supported the new Water Code by providing technical assistance.

amendment sets the norm for suspended fine particulate matter (PM2.5) at 35 μg/m3 for the annual average and 60 μg/m3 for the daily average, from a baseline of not having a standard in place.

58. **Program: To strengthen its regulatory framework for climate change and environmental protection, the Government has upgraded its EIA requirements towards good international practice via amendments to the "Law of Ecological Expertise".** Amendments to the "Law of Ecological Expertise" expand the scope of EIA to include climate change as a risk, and develop and clarify assessment methodologies, including for estimating GHG emissions and sinks associated with a project. The EIA law addresses the impact of climate change by mandating the integration of climate risk assessments and adaptation measures into both strategic planning and environmental impact assessment review processes. The law requires that EIAs consider the production of greenhouse gases and include measures aimed at achieving carbon neutrality. Additionally, it mandates that strategic planning documents incorporate specific climate change adaptation strategies, which are designed to address and mitigate the anticipated impacts of climate change, such as extreme weather events (floods, landslides, droughts), temperature fluctuations, and shifts in water availability. The law also focuses on protecting key environmental components (atmospheric air, soil, surface and underground water, and flora and fauna) from climate impacts, ensuring that adaptation measures enhance the resilience of these essential resources. It also raises the standard for public disclosure and consultation.

Prior Action #10: *To strengthen the regulatory framework for environmental impact assessment, the Borrower has submitted a Law on Environmental Expert Review and Environmental Impact Assessment ("EIA") for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments.*

59. **In addition, the government is also targeting major fossil fuel users, including the transport sector, that have contributed to high GHG and particulate emissions.** It has amended the Decision of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health on the permitted standards for hazardous substances in the residential areas[47] to establish an air quality standard for PM2.5. To reinforce these actions, pollution controls have been put in place to restrict vehicles into environmentally sensitive zones in urban centers[48], and to reduce GHGs and other pollution from vehicles through the gradual phase-out of non-Euro-5 compliant vehicle traffic in Tashkent and other urban centers.[49]

Prior Action #11: *To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5 to support greenhouse gas reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on May 27, 2024); and (ii) enacted measures under Presidential Decree No.37 dated February 21, 2024, and Cabinet Resolution No. 166 dated March 29, 2024, to reduce transport sector emissions.*

60. **Expected Results: Collectively the reforms under this policy area are expected to significantly support GHG reductions, resulting in a reduction in GHG emissions intensity from 2.55kg/US$ to at most 2.42kg/US$ (RI 14).** The reforms also contribute to the NDC goal of reducing GHG emissions per unit of GDP by 35 percent by 2030 from 2010 levels (RI 11). By setting a PM2.5 standard, the air quality regulatory framework will be geared to deliver health benefits and prioritize the reduction of fossil fuel use in heating and transport as abatement measures, as well as cleaner industrial production. The climate co-benefits would be significant, given that transport account for 50 percent of Tashkent's GHG emissions while the heating sector, which contributes significantly to PM2.5 pollution, has an 11 percent share in total CO2 emissions in the city. The reforms are expected to result in a reduction in air pollutions emitted by industrial sources as measured by RI 15. Requiring new GHG estimation and target-setting as part of all EIA assessments will also contribute to GHG emissions reductions.

Policy Area: Facilitating public and private financing in support of climate action

61. **Rationale: Uzbekistan's transition under its Green Economy Strategy for 2030 requires a combination of public and private financing in support of climate action, with public funds being crucial initially, and the private sector's role expected to grow over time.** This policy area builds on the establishment of the National Green Taxonomy, supported under the previous DPO, which established a consistent definition and technical standards for

[47] https://lex.uz/ru/docs/-6950581?ONDATE=27.05.2024
[48] https://lex.uz/docs/6858809
[49] https://lex.uz/docs/6811936

environmental and climate change projects. As described in the CCDR, scaling up financing for climate action is a significant challenge for Uzbekistan, and calls for the emergence and operationalization of new green financing modalities in both the public and private sector. The state-owned Entrepreneurship Development Company (EDC) has an important role in directing public support and mobilizing private financing towards more environmental and climate change investments[50] given its sector coverage, mandate to support the private sector, and its readiness to adopt green actions. A regulation for green bonds, which applies the principles of the Climate Bond Initiative, is needed to mobilize more private financing.

62. Program: To channel financing to climate investments, the government has: (i) issued Presidential Decree #193 dated November 10, 2023 directing the State Fund for Supporting Entrepreneurship (SFSE) to support green and climate-friendly technologies as it transitions to a joint stock company; (ii) approved through a decision of the board of the newly constituted EDC, a green strategy for EDC that contains specific financing targets; and (iii) adopted a legal framework for the issuance of corporate green bonds via amendment 2000-10 on June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues, and the issuance by National Agency of Prospective Projects (NAPP) of Order No. 51, dated June 14, 2024. The government's green economy program, as outlined in Presidential Decree #436, calls for measures to prioritize environmental and climate public spending, such as through EDC, and to mobilize private finance, including through the introduction of green or climate bonds.

Prior Action #12: *To channel financing to climate investments, the Borrower (i) has approved Presidential Decree #193 dated November 10, 2023 on the alignment of state financial support programs with support for climate-friendly technologies and approved as the main shareholder the new strategy for the State Fund for Supporting Entrepreneurship, (ii) has adopted regulatory amendments to the existing capital market* regulations and established technical standards for the issuance of corporate green bonds via (a) amendment 2000-10 dated June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues; and (b) the issuance by Order No.51 of the Director of National Agency of Prospective Projects, dated June 14, 2024.

63. Expected Results: These reforms are expected to raise the overall share of state financial support to climate action to 30 percent of total support by 2026 (RI 16). Under its new strategy, and starting in 2024, the SFSE will increase its annual financing in green projects, per the National Green Taxonomy, and will reach 30 percent of total annual financing approved by 2026 as well as introduce new green financial products. The green economic program establishes new business processes and organizational setup for due diligence, monitoring and reporting of environmental and climate projects. The green bond regulatory framework sets internationally recognized standards for external reviewers and use of proceeds, apply the National Green Taxonomy to determine eligible investments, and set standards for the reporting of proceeds distribution and impact. These are essential for a green and climate bond industry that is recognized by investors and is expected to support the growth of private climate finance markets over time. In the near term, SOEs are expected to be some of the first corporates to issue climate bonds.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

64. This proposed operation is fully consistent with the focus areas of the CPF and well aligned with the WBG mission of ending extreme poverty and boosting shared prosperity on a livable planet. All three pillars of the PDO are consistent with the first high-level outcome (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 agri-business development and Objective 1.4 on improving infrastructure for competitiveness and connectivity. The third pillar of the operation also supports 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. Further details are provided in Annex 7.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

[50] A WB-commissioned study looked at 23 state funds, 37 state-owned enterprises and 9 state-owned financial institutions.

65. **Public consultation and accountability mechanisms have been central to the reform agenda since 2017.** Since 2017, public accountability has gradually evolved from one-way feedback mechanisms into a more dynamic engagement between the government and the public. A public regulatory consultation portal has been established, which has supported public consultations on most supported measures. The design of some measures supported under this operation, such as energy tariff reform, were significantly influenced by public consultation.

66. **In 2019 and 2023, the government carried out communication efforts to explain the necessity of energy reforms related to market transition and tariff increases, gathering feedback from citizens.** In 2023 and 2024, the government led further communication initiatives to highlight the importance of raising energy tariffs to achieve cost recovery levels, while also implementing measures to protect socially vulnerable households.

67. **The WB works closely with other development partners to support the government's reform agenda.** The WB collaborates closely with the IMF to assess the adequacy of the macroeconomic framework and to support structural reforms. The WB works closely with UN agencies, the ADB, the European Union, KfW, AIIB, Agence Française de Développement and the Japan International Cooperation Agency (JICA) to ensure reforms supported under respective budget support operations are well coordinated.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

68. **Eight out of the 12 prior actions supported by this DPO have favorable poverty and distributional effects.** 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.

69. **A carefully designed set of compensation measures that accompany the adjustment of gas and electricity tariffs are expected to be effective in ensuring negligible adverse effects on the poor, while over time, greater fiscal resources will support improved public service outcomes to benefit low-income households.** Several measures have been put in place to mitigate the impact of higher energy prices on poor and vulnerable households. The introduction of a "social norm" (or below-cost, initial lifeline tariff) block contributes to a progressive tariff structure and helps to protect a large share of, but not all, poor households. To address potential negative impacts of tariff reforms during heating months, a one-time cash transfer of UZS 270,000[51] will be paid to beneficiaries of the low-income family assistance program and families in need[52] in November 2024. In addition, for low-income households who consume above the social norm, half of the incremental costs up to an additional threshold (350kWh for electricity, 750m^3 for gas) will be compensated. Since approximately 70 percent and 90 percent of vulnerable households[53] consume under the social norm and additional compensation threshold, respectively, almost all vulnerable households will be fully or well compensated by the mitigation measures. Additionally, a strong and accountable grievance redress system will be supported to ensure that billing-related issues are addressed. To monitor energy tariff reform impacts on vulnerable households, focus-group discussions, energy efficiency audits and monthly phone surveys (Listening to the Citizens of Uzbekistan) have been implemented; the findings of which have been used to determine effective compensation measures, which are reflected in the supported policy package. Energy tariff adjustments are expected to free up 0.9 percent of GDP of fiscal space. These additional resources will be available for improving public services,

[51] The amount of this cash compensation is sufficient to offset the average increase in monthly energy expenditures for the low-income households who consume within the social norm during the heating season.
[52] In addition to the current LIFA beneficiaries, mahalla authorities will identify families in need who are not in the Single Registry of Social Protection and provide a one-time cash transfer.
[53] Vulnerable households indicate beneficiaries of low-income family allowance included in the Single Registry of Social Protection.

which in general can be expected to have a positive effect on low-income households.

70. Liberalizing the agriculture market and strengthening land tenure security will be favorable to vulnerable agriculture households. In Uzbekistan, 15 percent of workers in the poorest quintile work in agriculture and their per capita median agricultural income is more than six times lower than what households in the top quintile earn. With the removal of minimum crop yield requirements, farmers are able to choose an optimal mix of products, including more climate-resilient crop varieties, and are more easily connected to the market and able to earn cash incomes. In addition, increasing tenure security can lead to significant productivity gains, increase investment in land, and thus increase land values for vulnerable farmers. The suggested reform is also gender positive as substantially higher shares of women are engaged in agriculture compared to men in the bottom 60 percent of households.

71. Improving the investment environment will have favorable impacts on poverty, while strengthening railway sector competitiveness could increase railway tariffs, albeit with limited impacts on the poor. Attracting more foreign companies through reforms in the investment environment is expected to contribute to increasing employment opportunities for the poor. While the reforms in enhancing competitiveness in the rail sector could increase tariffs for upscale services such as high-speed train in the short term, financial compensation for public service obligations provided by the government could prevent fare increases in commuter and suburban trains. In the mid-long term, the railway reform could improve the quality of goods and services, support sectoral business growth and job creation, and generate efficiency gains that could lead to lower costs of services for consumers in the mid-long terms. Rodriguez-Castelan (2020)[54] finds that higher product market concentration will typically increase the poverty rate, as households with lower incomes are often more exposed to the negative effects of low competition.

72. Increasing in-work benefits and strengthening the protection against gender-based violence would bring strong positive distributional and poverty-reducing effects. Poor and vulnerable workers are more likely to work in less secure jobs often characterized by a lack of job protections and benefits, making them more susceptible to employment and income shocks. In Uzbekistan, the poverty rate among households whose heads are not employed (14 percent) is more than three times the poverty rate among households with an employed household head (4 percent). More than 60 percent of workers in the poorest quintile work based on verbal contracts or without contracts, but the reform could provide in-work benefits for poorer workers without formal contracts as long as they meet eligibility criteria. Thus, expanding the provision of in-work benefits for unemployment, sickness, and maternity would contribute to protecting poorer households from income and other type of shocks. In addition, the proposed revisions in the Criminal Code of the procedures for reconciliation following domestic violence could also contribute to enhancing socio-economic opportunities for women and vulnerable groups in the medium to long run. In fact, a recent study estimated that a 1 percentage point decline in violence against women is associated with an 8.7 percent increase in economic activity, indicating that the economic cost of violence against women and girls is substantial in female employment.[55] Women are more vulnerable to the dangers of physical and emotional abuse in poor households that frequently deal with higher stress in times of economic difficulty. Hence, further strengthening the protection of women from violence in this DPO can lead to lifting barriers for female economic opportunities.

73. Air quality management by reducing GHG emissions and PM2.5 could have positive distributional impacts as air pollution could disproportionally impact poor households' well-being. A recent distributional study of air pollution in Tbilisi[56] indicated that poorer households are more vulnerable due to longer outdoor work and higher exposure to indoor air pollution. In Uzbekistan, a higher share of poor workers is engaged in agriculture and nearly 20 percent of households in the bottom 20 percent use firewood or coal for heating, compared to 11 percent in the top 20 percent of households. Despite higher exposure to air pollution, poorer households exhibit lower adaptive capacity due to lack of knowledge, funding, and access to health care services. The prior actions of air quality management, together with the upgrade of EIA regulations that can strengthen monitoring GHG emission, are expected to reduce unequally higher adverse impacts of air pollution on poor households' well-being, increasing their resilience.

[54] Rodriguez Castelan,Carlo, Lopez-Calva,Luis-Felipe and Barriga Cabanillas,Oscar Eduardo, (2020), "The Effects of Local Market Concentration and International Competition on Firm Productivity : Evidence from Mexico," Policy Research Working Paper Series 9210, The World Bank.
[55] Ouedraogo, Rasmané and Stenzel, David (2021), "The Heavy Economic Toll of Gender-based Violence: Evidence from Sub-Saharan Africa", IMF working papers.
[56] Baquie,S., A. Behrer, X. Du, A. Fuchs Tarlovsky, and N. Nozaki (2024), "Air pollution in Tbilisi Poverty and distributional consequences". Washington, D.C.: World Bank Group.

5.2. ENVIRONMENTAL ASPECTS

74. **This operation does not pose significant negative impacts to the environment, natural resources and forests.** Reforms in the energy, agriculture and railway sectors continue the ongoing energy tariff adjustments (Prior Action 1), strengthen energy sector regulatory framework (Prior Action 2), and strengthen the railway sector environment and land tenure security (Prior Actions 3 and 4). These provide overall positive impacts on environment by promoting efficient energy use, climate resilience and increase investments in renewable energy, which contribute to reduction of GHG emissions. Like any form of development, promotion of investments in renewable energy (Prior Action 2), such as wind and solar energy, may have a downstream risk of negative impacts such as land use limitation and impacts on wildlife and ecosystems. To mitigate such a downstream risk, the government continues to strengthen the regulatory framework for EIA (Prior Action 10) to be applied for such investments. Removal of energy subsidies (Prior Action 1) may have a risk of increased use of wood fuels by lower-income households. Such risk is mitigated by several compensatory measures in place, including the lifeline tariff to protect vulnerable households (Prior Action 2), which helps prevent their shift to coal and biomass due to the tariff adjustment. All other prior actions have positive environmental impacts, including promotion of green procurement (Prior Action 6), promoting efficient energy and water use (Prior Actions 8 and 9), improving air quality (Prior Action 11), promoting climate change adaptation and mitigation through strengthening the regulatory framework for EIA (Prior Action 10), and promoting private sector financing for climate (Prior Action 12).

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

75. **The draft 2024 Public Expenditure and Financial Accountability (PEFA) assessment highlights significant improvements and some outstanding weaknesses in areas relating to budget preparation.** The draft PEFA identifies 38 dimensions that have improved since the last assessment in 2018 and 7 that have deteriorated (of which 3 are due to lack of data). Budget execution, personnel and payroll, revenue services, and procurement have all reflected the information technology and associated software that has been in place and expanded over time. The application of the IT, which was developed, is based on business processes in each of the subject areas and not on the reconfiguration of business practices to suitable software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel has been fundamental to the development of strengths in PFM. Areas of weakness relate to policy-based fiscal strategy and budgeting, such as medium-term fiscal management and the budget preparation process. The 2024 PEFA is expected to be the basis of the development of a PFM reform strategy and action plan.[57]

76. **The country's supreme audit institution (Chamber of Accounts, CoA) has achieved some progress in its institutional development and improved its status and independence over the recent years.** A new law to strengthen the CoA was approved by Parliament in June 2019, which clarifies and expands its institutional mandate to go beyond financial and compliance audits and include regular efficiency and performance audits of government agencies. In accordance with the Decree of the President of the Republic of Uzbekistan dated August 27, 2021, the CoA obtained the status of a legal entity, functioning before as staff of the presidential office. Since 2022, the CoA put into practice compliance audit, financial audit, and performance audit. In 2021, the CoA approved the standards for the audit of conformity, financial audit and performance audit developed based on the International Standards of Supreme Audit Institutions. The CoA became a full member of the International Organization of Supreme Audit Institutions in 2021. The next priority is to increase Uzbekistan's public audit practices with the international standards of supreme audit institutions. Audit reports of government budget execution are prepared and discussed by the Parliament (2022 budget execution audit report is published on the web-page https://ach.gov.uz/uploads/dc70d371-69ea-3346-45ac-d3c217a6f4df.pdf). The CoA publishes summary of findings of audit reports, its own quarterly and annual reports.

77. **The Central Bank of Uzbekistan (CBU) aims to further strengthen its governance and transparency in line with recommendations from the recent safeguards assessment.** An IMF Safeguards Assessment for the CBU was conducted in 2022. According to the 2022 IMF Safeguards Assessment, the forex control environment of the CBU has a strong compliance culture and based on this evidence, the Central Bank control environment is acceptable to the World Bank. The CBU has also been audited regularly by an audit firm, part of a large international professional services network, and received unmodified audit reports. However, financial statements are prepared under internal

[57] The next PFM Strategy for 2025-2030 is planned to be finalized during 2024.

accounting and reporting procedures issued by the CBU that are not in line with the International Financial Reporting Standards (IFRS), and the audited financial statements of the CBU are not publicly available. The CBU aims to enhance transparency through the full adoption of IFRS and publication of audited financial statements next year.

78. Funding under this operation would be made available to the government upon the effectiveness of the Loan and Credit Agreements and the submission of a withdrawal application for the loan and credits, provided that the borrower has carried out the Program satisfactorily, and its macroeconomic policy framework is adequate. The proceeds of the loan and credits will be disbursed into Foreign Currency Dedicated Accounts that will form part of the country's official foreign exchange reserves held at the CBU and be opened in the name of the MEF for streamlining of reporting on the fund flow. The Bank will deposit all withdrawals from the loan and credits in this operation into these dedicated accounts. A dedicated account will provide assurance to validate and check that funds are credited to CBU account and then credited to the Treasury Single Account (TSA). The audit of the funds flow is planned to take place in 2025 for the last three development policy operations. Within five business days after depositing the loan amount and credits into these accounts, the Borrower will transfer the amount from the loan and credits into the TSA (US dollars and/or Uzbekistan sum). The Borrower, within 30 days after the withdrawal of the loan and credits from the dedicated accounts, will report to the Bank: (i) the exact amount received into the dedicated account; (ii) the details of the account to which the equivalent of the proceeds of the loan and credits in this operation will be credited; (iii) the record that an equivalent amount has been accounted for in the Borrower's budget management systems; and (iv) the statement of receipts and disbursement of the dedicated accounts.

79. The MEF is responsible for the proposed operation's administration and the preparation of the withdrawal application, maintaining the dedicated account, and the TSA. The MEF, with the assistance of the CBU, will maintain records of all transactions under this operation per sound accounting practices, and the proceeds of this operation will be promptly accounted for in the country's budget management system using the country's regular procedures for such accounting. The government budget is publicly available for consultations prior to approval and published in full, following Parliamentary approval.[58] If, after funds are deposited in the dedicated account, proceeds from the loan and credits in this operation are used for ineligible purposes, those proceeds will be refunded to the WB. Amounts refunded to the WB for excluded expenditures (as defined in the General Conditions) will be canceled from the loan and credits.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

80. 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 shown in the monitoring and results framework of the policy matrix (Annex 1).

81. Grievance redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a WB Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit

[58] https://lex.uz/docs/6707805

complaints to the Bank's AM, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

82. **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 Implementation Completion and Results Reports 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.

83. **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 mitigating measures for the institutional capacity risk include extensive technical support from development partners, including the WBG, improved donor coordination, and the government's effort at seeking international technical expertise.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

DETAILED RESULTS FRAMEWORK

Prior actions		Results		
Prior Actions under DPO 1	**Prior actions for DPO 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1: Creating markets				
Prior Action #1. To strengthen market institutions in the energy sector, the Borrower has: (a) (i) established an independent energy regulator to be responsible for consolidated regulation of the energy sector and (ii) ordered the separation of the energy network operation and commercial functions of the power transmission company, JSC National Electric Grid of Uzbekistan (NEGU), through the Presidential Decree No. 166 dated September 28, 2023; and (b) increased tariff levels for legal entities[59] in 2023, through a Resolution of the Cabinet of Ministers No. 475 dated September 15, 2023.	**Prior Action #1**. To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024.	**Results Indicator #1.** Energy tariffs recovering portion of their costs (%) Source: Ministry of Economy and Finance, Ministry of Energy	Electricity – 61% cost recovery Natural gas – 44% cost recovery (September 2023)	Electricity – 100% cost recovery Natural gas – 100% cost recovery (December 2026)
	Prior Action #2: To further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 2024; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14,	**Results Indicator #2** Share of social protection recipients that are below the 'social norm' for: a) electricity; b) gas (during heating season) Source: National Agency for Social Protection	Electricity – 0% of social protection recipients Natural gas – 0% of social protection recipients (September 2023)	Electricity – 70% of social protection recipients Natural gas – 70% of social protection recipients (December 2026)

[59] Effective from October 1, 2023, tariffs for legal entities (non-residential consumers) increased between 13% and 100% for electricity, and between 36% and 127% for natural gas, depending on the sector. This also brought the average cost recovery of electricity tariffs from 61% to around 77%, and natural gas tariffs from 44% to around 64%. Another tariff increase for residential and non-residential consumers was launched in 2024. The Government plans to reach tariff cost recovery by the end of 2026.

Prior actions		Results		
	2024, to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.			
Prior Action #2. To strengthen competitive and institutional framework in the railway sector, the Borrower has approved institutional reforms in the sector, mandating O'zbekiston temir yo'llari to undertake the following corporate restructuring: the separation of infrastructure, freight, and passenger business units; the modernization of accounting systems to ensure the effectiveness and transparency; and the unbundling and sale of non-core assets through the Presidential Resolution No. 329 dated October 10, 2023.	**Prior Action #3.** To make railway reform more effective, the Borrower: (i) has submitted a Law on Railway Transport dated July 15, 2024 for Parliamentary approval that modifies the legal framework on competition regulation and tariff reform, promotes the shift to low-carbon transport, continues the organizational structuring of O'zbekiston temir yo'llari (JSC Uzbekistan Railways), and clarifies the role of the state in the railways sector; and (ii) through its Ministry of Transport, has approved the contractual framework for the first Public Service Agreement, through a Resolution of the Cabinet of Ministers No.425, dated July 16, 2024.	**Results Indicator #3.** Existence of a budgeted PSA with key performance indicators. Source: Ministry of Economy and Finance website	No PSA exists. (September 2023)	PSA with key performance indicators presented in the public budget. (December 2026)
Prior Action #3. To create favorable market conditions in the chemical sector, the Borrower has: (i) mandated the organizational structure unbundling of UKS and transferred the regulatory and SOE shareholding functions of UKS to responsible government bodies, through the Presidential Decree No. 169 dated October 12, 2023; and (ii) authorized the Ministry of Industry, Investments and Trade (MIIT) to sign an agreement for the divestment of FerganaAzot following a competitive bidding process through the Presidential Resolution No. 242, dated July 27, 2023.		**Results Indicator #4.** Number of companies in the chemical sector with a majority of private ownership Source: SAMA website and Ministry of Justice for business registry.	0 (January 2022)	2 (December 2026)
Prior Action #4. To liberalize the agriculture sector and promote higher productivity, the Borrower has: (i)	**Prior Action #4.** To continue the liberalization of the agriculture sector and strengthen land	**Results Indicator #5.** Land productivity index	100 (December 2022)	115 (corresponding 15 percent

Prior actions		Results		
abolished the crop placement system for all crops, through a Presidential Decree No. 90 dated June 10, 2023; and (ii) ordered measures to strengthen the implementation of abolishment of the crop placement system, through Protocol No. 60 from the Republican Commission on deepening economic reforms in agriculture of the Cabinet of Ministers, dated and approved by the Prime Minister on September 28, 2023.	tenure security in line with climate resilience, the Borrower has submitted amendments to the Land Code for Parliamentary approval on May 6, 2024 that remove the requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.	2022=100 (agriculture value added in real terms in billion sums per 1000 hectare of sown area) Source: Uzbekistan Statistics Agency		cumulative increase compared to 2022) (December 2026)
	Prior Action #5. To improve the competitive investment environment, the Borrower has submitted a Law on Investments and Investment Activities for Parliamentary approval on July 15, 2024, that strengthens investor protection guarantees, investor services and increases climate change investments.	**Results Indicator #6.** The number of newly registered foreign companies per year Source: Uzbekistan State Committee on Statistics	1249[60] (average of yrs 2020-2022) (January 2022)	1374 (10% increase compared to the baseline) (December 2026)
Pillar 2: Improving Fiscal Risk Management and Public Procurement				
Prior Action #5. To strengthen fiscal risk management, the Borrower has mandated the Fiscal Risk Department within MEF to evaluate, monitor and report on contingent liabilities in PPP projects and to define the methodology, through a Resolution of the Cabinet of Ministers No. 558 dated October 23, 2023.	**Prior Action #6:** To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts, on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; and (iii) submitted	**Results Indicator #7.** Fiscal risk framework and publication of report on contingent liabilities from the PPPs. Source: Ministry of Economy and Finance website	No fiscal framework or methodology and no report on contingent liabilities from PPPs. (September 2023)	Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least 2 fiscal risk reports covering PPP contingent liabilities (December 2026)
		Results Indicator #8.	i) 43.6%	i) 60%

[60] This figure is preliminary and might be revised.

Prior actions		Results		
	amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.	Share of total public procurement that is: i) subject to competitive, electronic means; ii) green public procurement[61] Source: Ministry of Economy and Finance Public Procurement Special Information Portal	ii) 0% (December 2022)	ii) 15% (December 2026)
Pillar 3: Supporting Social Inclusion and Climate Change Action				
Prior Action #6. To consolidate and strengthen Uzbekistan's social protection system and ensure a well-coordinated policy framework, the Borrower has established the National Agency for Social Protection under the President with the mandate to lead the social protection policy, through a Presidential Decree No. 82 dated June 1, 2023.	**Prior Action #7.** To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024, that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.	**Results Indicator #9.** The share of the poorest quantile receiving at least one type of social protection support Source: World Bank estimates using Household Budget Survey **Results Indicator #10.** The share of the labor force contributing to the new social insurance schemes Source: National Agency for Social Protection	79% (December 2022) 0% (December 2022)	85% (December 2026) 15% (December 2026)
Prior Action #7. To strengthen the protection of women against violence, including intimate partner violence (physical, sexual, economic, and psychological) and		**Results Indicator #11.** Percentage of GBV cases filed, including domestic	5 (September 2023)	35 (December 2026)

[61] This is a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured.

Prior actions		Results		
sexual violence by a non-partner, the Borrower has approved measures which, inter alia, criminalize domestic violence, increase punishments for sexual crimes, make economic and psychological violence and sexual harassment criminal offense, and extend protection orders for GBV survivors to up to one year, though a Law No. 829 dated April 11, 2023.		and sexual violence, that receive a verdict protecting survivors. Source: Supreme Court website		
Prior Action #8. To improve access to free legal aid for low-income persons, including survivors of gender-based violence, the Borrower has expanded the eligibility for state-sponsored legal representation to low-income persons in civil and criminal cases through Law No. 848 dated June 16, 2023.				
Prior Action #9. To scale up action on climate change, the Borrower has set more ambitious climate mitigation and adaptation targets and timebound programs, through a Presidential Resolution No. 436 dated December 2, 2022.	**Prior Action #8**. To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024.	**Results Indicator #12.** GHG emission reductions from energy efficiency measures at major emitters (25 largest SOEs) Source: SOE reports submitted to Ministry of Economy and Finance	0 (January 2024)	1.5 million tCO2 (December 2026)
	Prior Action #9. To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024.	**Results Indicator #13.** Number of water management balances prepared for river basins incorporating the effects of climate change and published. Source: The Ministry of Water Resources.	0 (July 2024)	3 (December 2026)
Prior Action #10. To step up action on air quality management and improve the institutional alignment for environment and climate change, the Borrower has: (i)	**Prior Action #10.** To strengthen the regulatory framework for environmental impact assessment, the Borrower has submitted a	**Results Indicator # 14.** GHG emissions intensity (kg CO2eq/US$ GDP)	2.55 kg/US$ (December 2017)	2.42 kg/US$ (December 2026)

Prior actions		Results		
strengthened the capacity and mandate of the new Ministry for the Environment, Ecology and Climate Change, (ii) updated the air pollution control framework by revisions to the pollution charge system and (iii) improved air quality monitoring and enforcement, through Presidential Resolution No. 171 and Presidential Decree No. 81 dated May 31, 2023.	law on Environmental Expert Review and Environmental Impact Assessment ("EIA") for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments.	Source: Biennial Report to the UNFCCC for Uzbekistan (2021), Government of Uzbekistan		
	Prior Action #11. To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5, to support greenhouse gas reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on May 27, 2024); and (ii) enacted measures under Presidential Decree No.37 dated February 21, 2024, and Cabinet Resolution No.166 dated March 29, 2024, to reduce transport sector emissions.	**Results Indicator #15.** Reduction in air pollutants emitted by industrial sources relative to 2022[62] (% by weight) Source: MEEPCC (Air Protection department)	0% (November 2022)	6% (December 2026)
Prior Action #11. To attract investments into green activities, the Borrower has established a national green taxonomy that sets a clear framework for defining environmentally sustainability, through a Resolution of the Cabinet of Ministers No. 561 dated October 25, 2023.	**Prior Action #12.** To channel financing to climate investments, the Borrower (i) has approved Presidential Decree #193 dated November 10, 2023 on the alignment of state financial support programs with support for climate-friendly technologies, and approved as the main shareholder the new strategy for the State Fund for Supporting Entrepreneurship, (ii) has adopted regulatory amendments to the existing capital market	**Results Indicator #16.** The share of state supported investments that conform with the Green Taxonomy Source: Ministry of Economy and Finance data	0% (January 2022)	30% (December 2026)

[62] Estimate from MEEPCC for 2022 is 874,000 tons of air pollutants from non-transport stationary sources.

Prior actions		Results		
	regulations and established technical standards for the issuance of corporate green bonds via (a) amendment 2000-10 dated June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues, and (b) the issuance by Order No.51 of the Director of the National Agency of Prospective Projects, dated June 14, 2024.			

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Pillar 1: Creating Markets	
Energy tariffs recovering portion of their costs (Percentage)	
Sep/2023	Dec/2026
Electricity - 61% cost recovery, natural gas - 44% cost recovery	Electricity and natural gas - 100% cost recovery
Share of social protection recipients that are below the ‘social norm’ for: i) electricity; ii) gas (during heating season) (Percentage)	
Sep/2023	Dec/2026
Electricity - 0% of social protection recipients, natural gas - 0% of social protection recipients	Electricity and natural gas - 70% of social protection recipients
Existence of a budgeted PSA with key performance indicators (Yes/No)	
Sep/2023	Dec/2026
No PSA exists	PSA with key performance indicators presented in the public budget
Number of companies in the chemical sector with a majority of private ownership (Number)	
Jan/2022	Dec/2026
0	2
Land productivity index 2022=100 (agriculture value added in real terms in billion sums per 1000 hectare of sown area) (Number)	
Dec/2022	Dec/2026
100	115 (15% cumulative increase compared to 2022)
Number of newly registered foreign companies per year (Number)	
Jan/2022	Dec/2026

1,249	1374 (corresponding 10% increase)
Pillar 2: Improving Fiscal Risk Management and Public Procurement	
Fiscal risk framework and publication of report on contingent liabilities from PPPs (Yes/No)	
Sep/2023	Dec/2026
No fiscal framework or methodology and no report on contingent liabilities from PPPs	Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least 2 fiscal risk reports covering PPP contingent liabilities
Share of total public procurement that is: 1) subject to competitive, electronic means, ii) green public procurement (Percentage)	
Dec/2022	Dec/2026
i) 43.6%, ii) 0%	i) 60%, ii) 15%
Pillar 3: Supporting Social Inclusion and Climate Change Action	
Share of poorest quantile receiving at least one type of social protection support (Percentage)	
Dec/2022	Dec/2026
79%	85%
Share of the labor force contributing to the new social insurance schemes (Percentage)	
Dec/2022	Dec/2026
0%	15%
Percentage of GBV cases filed, including domestic and sexual violence, that receive a verdict protecting survivors (Percentage)	
Sep/2023	Dec/2026
5%	35%
GHG emission reductions from energy efficiency measures at major emitters (25 largest SOEs) (Tones/year)	
Jan/2024	Dec/2026
0	1.5 million tCO2
Number of water management balances prepared for river basins incorporating the effects of climate change and published (Number)	
Jul/2024	Dec/2026
0	3
GHG emissions intensity (kg CO2eq/US$ GDP) (Amount(USD))	
Dec/2017	Dec/2026
2.55 kg/US$	2.42 kg/US$
Reduction in air pollutants emitted by industrial sources relative to 2022 (%by weight) (Percentage)	
Nov/2022	Dec/2026
0%	6%
Share of state supported investments that conform with the Green Taxonomy (Percentage)	
Jan/2022	Dec/2026
0%	30%

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2024 Article IV Consultation with the Republic of Uzbekistan

Washington, DC: On June 13, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Uzbekistan[63] and considered and endorsed the Staff Appraisal on a lapse-of-time basis without a meeting.[64]

Uzbekistan's growth has remained strong. While remittances fell to the pre-2022 trend, expansionary fiscal policy, buoyant private consumption, and a surge in fixed investment boosted real GDP growth to 6 percent in 2023. In the first quarter of 2024, growth remained robust at 6.2 percent year-over-year (yoy). With a relatively high real policy rate and falling international food and energy prices, consumer price inflation fell from 12.3 percent (yoy) at the end of 2022 to 8.1 percent in April 2024. In 2023, Uzbekistan's current account deficit widened to 8.6 percent of GDP compared to 3.5 percent of GDP in 2022. An increase in imports of machinery and equipment (some of which is temporary), declining remittances, higher interest payments on foreign debt, and repatriation of earnings by foreign-owned enterprises more than offset buoyant gold exports. International reserves fell by $1.2 billion in 2023 but remained high at close to 9 months' worth of imports at end-April 2024.

The outlook is broadly positive. The authorities' strong reform efforts, most notably the energy price reform and privatization of state enterprises, have improved economic prospects. Supported by strong domestic demand, real GDP growth is projected to remain robust at 5.4 percent in 2024 and rise slightly to 5.5 percent in 2025. Continued efforts to reduce the fiscal deficit, ongoing moderation in bank lending growth, and a slowdown in import growth will reduce the current account deficit this year and next. Inflation is projected to temporarily rise by end-2024 as administered energy prices increase, but continuing tight macroeconomic, macroprudential, and structural policies will reduce the inflation rate towards the Central Bank of Uzbekistan's (CBU) target over the medium term.

Given the uncertain global environment, external risks include geoeconomic spillovers, commodity price volatility, and an abrupt global slowdown. Domestic risks include slower-than-planned fiscal consolidation, weaker bank balance sheets, or materialization of contingent liabilities—from state banks, state-owned enterprises (SOEs), and public-private partnerships (PPPs). On the upside, an acceleration of structural reforms, greater inflows of income and capital, or higher export prices could improve the outlook.

Executive Board Assessment

In concluding the Article IV consultation with the Republic of Uzbekistan, Executive Directors endorsed the staff's appraisal as follows:

Uzbekistan continues its steadfast progress toward transforming its economy. The economy has experienced rapid growth and declines in poverty in recent years despite headwinds and uncertainty from the pandemic and Russia's war in Ukraine. Growth is expected to remain robust this year—despite a deceleration in trading partner growth and the withdrawal of the 2023 fiscal stimulus—and over the medium term, supported by the completion of fiscal consolidation, ongoing structural reforms, and continuing capital inflows. These achievements are a testament to the authorities' efforts to advance Uzbekistan's economic development through market-oriented reforms. However, challenges still remain from a large state footprint in the economy and last year's expansionary fiscal policy, and the authorities are determined to persevere in their reform efforts to address them and advance sustainable and inclusive

[63] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.
[64] The Executive Board takes decisions under its lapse-of time procedure when the Board agrees that a proposal can be considered without conveying formal discussions.

growth. The positive economic outlook provides a unique opportunity for the implementation of reforms to deepen the foundations for a dynamic, open, and private sector-led economy.

The planned fiscal policy adjustment is appropriate to maintain robust public finances and facilitate external adjustment while supporting monetary policy in containing inflation. The size and pace of consolidation are ambitious but achievable, and the main consolidation measures are relatively growth-friendly given their efficiency-enhancing nature combined with protection of the vulnerable. There is scope to broaden the tax base, modernize the tax system, and increase the efficiency of public spending through rationalizing the wage bill, phasing out SOE support, and improving the targeting of social protection programs while eliminating overlaps and reducing administrative costs. Advancing pension reform is important to ensure long-term fiscal sustainability and effective social protection for workers. Efforts should also continue to improve fiscal institutions by strengthening core budget processes, unifying the public investment process, improving the identification and management of fiscal risks, ensuring full transition to GFS standards for fiscal monitoring and reporting, and continuing to develop the domestic debt market in coordination with monetary policy.

Monetary policy has managed to lower inflation and should remain focused on reducing it further to the CBU's target. Sustaining a high real policy rate, along with tight fiscal and macro-prudential policies and supportive structural reforms, would gradually reduce inflation to the CBU target by end-2027. The CBU should stand ready to increase its policy rate if the energy price reform results in broader price pressures and raises inflation expectations.

Minimizing the state's involvement in the financial sector while strengthening financial sector supervision will support sustainable financial deepening while protecting financial stability. This involves modernizing the governance of state banks, mandating them to operate commercially, and expediting and expanding privatization efforts to all systemic financial institutions. While higher financial intermediation is welcome, and the recent macroprudential measures were appropriate, the impact of the measures that will come into force in July should be closely monitored to ensure sustainable financial deepening. Enhancing prudential supervision to align it with international standards and conducting AQRs and robust stress tests are also important to facilitate timely interventions and safeguard financial stability. Deposit-taking microbanks, if established, should be subjected to proper governance and capital requirements and adequate supervision.

Capitalizing on progress already achieved, sustained reform efforts will magnify their impact and make growth more sustainable, inclusive, and green. Careful sequencing of reforms would help expedite implementation, while reduced ad-hoc state intervention would enhance resource allocation efficiency. The government should continue efforts to accelerate the restructuring and privatization of state enterprises. It should also eliminate preferences for SOEs and unbundle large enterprises to increase competition and improve the business environment. The authorities are correctly accelerating their efforts for WTO accession and taking measures to bolster external competitiveness and export diversification, opening markets, and reducing monopolies would boost growth and help reduce inflation. Initiatives to increase women's labor participation and phase out energy subsidies would stimulate growth while supporting decarbonization and climate adaptation efforts.

The momentum on anticorruption efforts should be sustained, building on significant improvements in governance and rule of law indicators. Staff recommends enacting the asset declaration, conflict of interests, and whistleblower protection laws. The government should implement additional measures to improve the independence of prosecutors, judges, and the Chamber of Accounts. Finally, the government should take steps to further enforce access to government information which would improve accountability and trust in public administration.

Uzbekistan: Selected Economic Indicators 2021-2025

	2021	2022	2023	2024	2025
			Proj.		
National income					
Real GDP growth (percent change)	7.4	5.7	6.0	5.4	5.5
Nominal GDP (in trillions of Sum)	738	897	1,067	1,267	1,505
GDP per capita (in U.S. dollars)	2,014	2,301	2,523	2,692	2,959
Population (in millions)	34.6	35.3	36.0	36.9	37.7
Prices	(Percent change)				
Consumer price inflation (end of period) 1/	10.0	12.3	8.8	11.5	8.7
GDP deflator	13.5	14.9	12.2	12.7	12.6
External sector	(Percent of GDP)				
Current account balance	-7.0	-3.5	-8.6	-7.6	-7.1
External debt	57.6	54.6	61.3	60.9	59.1
	(Level)				
Exchange rate (in sums per U.S. dollar; end of period)	10,838	11,225	12,339	…	…
Real effective exchange rate (ave, 2015 =100, decline = depreciation)	65.3	61.6	58.4	…	…
Government finance	(Percent of GDP)				
Consolidated budget revenues	27.7	32.0	30.1	30.5	30.6
Consolidated budget expenditures	33.2	36.0	35.6	34.5	33.6
Consolidated budget balance	-5.5	-4.0	-5.5	-4.0	-3.0
Adjusted revenues 2/	25.9	30.8	29.2	29.2	29.2
Adjusted expenditures 2/	30.5	34.8	33.8	32.4	31.6
Adjusted fiscal balance	-4.6	-4.1	-4.6	-3.3	-2.4
Policy-based lending	1.5	-0.1	1.0	0.7	0.6
Overall fiscal balance 2/	-6.0	-4.0	-5.5	-4.0	-3.0
Public debt	35.3	33.9	36.3	35.7	34.7
Money and credit	(Percent change)				
Reserve money	28.3	31.4	4.9	8.5	8.8
Broad money	29.7	30.2	12.2	16.1	18.8
Credit to the economy	18.4	21.4	23.2	16.7	18.9

Sources: Country authorities and IMF staff estimates.

1/ The consumer price inflation projection incorporates the effect of the announced increases in energy prices in 2024 and 2025.

2/ IMF staff adjusts budget revenues and expenditures for financing operations, such as equity injections, policy lending, and privatization of state enterprises. The overall fiscal balance until 2021 is more negative than the consolidated budget balance as the latter includes privatization receipts as revenue. Since 2022, there is no difference as the authorities started including all privatization receipts as financing.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

**O'ZBEKISTON RESPUBLIKASI
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Ajay Banga
President
World Bank Group

Dear Mr. Banga,

It is with great pleasure that I write to you on the occasion of the presentation to the Board of the Second Inclusive and Resilient Market Economy Development Policy Operation (DPO). This operation marks a further milestone in our strong policy engagement with the World Bank Group, in support of our reforms towards creating an inclusive, green, and market-based economy in Uzbekistan.

Under the leadership of President Shavkat Mirziyoyev our vision for "Uzbekistan-2030" is to build a prosperous economy based on free market principles, a robust civil society, and good living conditions for all, especially the most vulnerable in our society. This commitment to inclusivity and prosperity is at the core of our development policy.

Mr. Banga, I am sure you are already aware of the significant reform steps that our country has been taking in recent years. Our close and robust partnership with the World Bank over this whole period has been central to bringing the best of global experience to bear and accelerate the success of our reform ambitions. We are unwavering in our commitment to creating the best future for our people and seeing our economy grow rapidly and equitably to become an upper-middle-income economy by 2030. Over the last 3 years, poverty rate has declined from 17% in 2021 to 11% in 2023 by national poverty line.

Uzbekistan's transition to an inclusive, competitive, and private sector-led market economy remains the main path towards achieving our strategic vision. The President Mirziyoyev approved the new Development Strategy "Uzbekistan – 2030" which is in line with the United Nations Sustainable Development Goals, and we have ambitious targets. The main goal remains to achieve higher and sustainable GDP per capita growth to propel us to the upper middle-income status and double GDP by 2030 compared to 2022. We will continue focusing on creating jobs and enabling entrepreneurs through the private sector, attracting foreign direct investment, ensuring regional development, pursuing fairness and human capital development, and supporting women's economic, social and political empowerment.

I would like to take this opportunity to tell you about what we have achieved in the last year, and how this has gone further in fulfilling our shared vision for Uzbekistan's development.

Creating Markets

Firstly, we have taken decisive action to further separate the state from key markets to create space for our fast-growing private sector.

This year, we are advancing our transition to a sustainable and green model for the energy sector by introducing a comprehensive Electricity Law and initiating residential tariff reform that will see the sector move towards eliminating energy subsidies and achieving full cost recovery by end-2026 while retaining strong support structures for the vulnerable and less able to pay. The new Electricity Law aims to foster competition, enhance the reliability, safety, and affordability of electricity, and includes provisions for consumer protection through various social mechanisms.

Specifically, since 1 May 2024 we have introduced a lifeline tariff by setting the tariff for the first block of energy used at 450 UZS (about 3.6 US¢/kWh) up to 200 kWh of electricity and 650 UZS (about 5.1 US¢/m3) up to 100/500 m3 of natural gas for the non-heating/heating season, respectively. Additionally, the government has approved specific support for vulnerable households registered in the Single Registry of Social Protection, to provide a one-off grant of 270,000 UZS (about 21 US$) in November 2024.

For vulnerable households who consume more than lifeline tariff thresholds during the heating season, the incremental tariff costs will also be partly compensated by up to 750 m3 of natural gas and 350 kWh of electricity, respectively. This is the culmination of many years of effort to reform the sector and build on steps taken in the last policy operation of this program to establish an independent sector regulator, initiate commercial tariff reform and to further unbundle the institutional structures of the sector.

Following the first steps in liberalizing the railway sector through the reforms in 2023 to restructure O'zbekiston Temir Yo'llari (UTY), the railways state-owned enterprise, and in recognition of the growing demand for railway services given its importance for Uzbekistan, we are continuing to improve the efficiency of our railway sector. We have now submitted to the Parliament new Railway Law for the country that improves the sector's institutional and regulatory framework to clearly outline the role of the public sector, improve transparency of fiscal transfers, and raise autonomy in managing the railways. These reforms will allow the operator to set prices in line with commercial sustainability while ensuring the government can pay for non-market public services in a transparent and competitive manner. While we expect the national rail network will remain public, these reforms also open the way for the introduction of competition, for instance, in the operation of rolling stock, for the first time.

The World Bank has been an important partner in our path of renewal for Uzbekistan's critical agriculture sector. This sector has been the target of several reforms in DPOs, cumulatively building a more open and private sector-oriented sector. These efforts are very important because agriculture has the potential to continue to be a major employment sector and source of value added and exports. However, in the past, extensive and unsustainable agricultural practices have reaped ecological problems, while overbearing state control has reduced the ability of farmers and businesspeople to make their own way to prosper. Previously, we did away with the mandatory crop placement system, which has been in place since Soviet times.

To improve the effective land tenure security for farmers, we have submitted to the Parliament the amendments the Land Code to, inter alia, cancel the arbitrary requirements on minimum farm crop yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.

As I promised to you in my letter last year, in this proposed operation, we have expanded the scope of our reforms to upgrade our investment regulatory framework. We have submitted to the Parliament a new Investment Law that will strengthen property rights and investor services, particularly for foreign investors. We expect this to support the growth of foreign direct investment into our country, especially in export-oriented and climate-friendly sectors.

We have made progress in extending telecommunications access and lowering prices in recent years. Yet we are committed to making even greater gains and evidence shows that those countries that have liberalized their telecoms sectors have achieved universal access and improved connectivity speeds, critical for both private sector development and household connectivity. In this context, this year, we have announced the decision to pilot liberalized retail access to international internet gateways from January 2025, and the Ministry of Digital Technologies will prepare by October 2024 Provisions outlining direct connections and phased transition to wholesale access. Based on the lessons from this pilot, we will decide whether to make this change permanent. In future, we intend to continue with reforms, including by opening direct access for resellers as well.

We are also working on a new Telecom Law that strengthens the institutional framework, inter alia, by establishing an independent regulator. In order to reduce the role of the government in operations of the incumbent SOE Uzbektelecom, we also increased the number of independent members with extensive international experience to 3.

Last year, we achieved two major milestones in the reform of the chemicals sector, by privatizing FerganaAzot, a large chemicals factory, and by unbundling UzKimiyoSanoat (UKS), the chemical SOEs holding company, and removing its regulatory and SOE shareholding functions. While the reforms in this sector are continuing steadily, the approval of the restructuring and privatization strategy of NavoiAzot is not expected to be completed this year as we initially intended, as sectoral consultations have highlighted this may not be the opportune moment to finalize this reform. However, we intend for the privatization agenda in the chemical sector to continue to move forward and we expect privatizations of this and other significant chemicals SOEs to be completed at the appropriate time.

By decree of the President, we have implemented other important reforms in the chemicals sector this year, by removing the monopoly rights of the SOE, UzKimyoImpEx, to import inputs for and export chemicals products from organizations of UKS. Our government is now completing amendments to related legislation to make this change fully effective. Going forward, we will continue to strive for a level playing field in the chemicals sector while adhering to the market principles and increasing private sector participation.

Improving fiscal risk management and public procurement

The prudent management of our public finances is critically important. As part of this, we remain committed to ensure vigilance against any possible fiscal risks that may risk our robust fiscal discipline, now or in the future. Last year we assigned the Fiscal Risk Department the role of monitoring and reporting on the fiscal liabilities from our PPP projects. This year we have adopted a comprehensive framework to monitor, evaluate and report on fiscal risks from a variety of sources, including macroeconomic shocks, climate change and climatic events, SOEs, and Public-Private Partnerships. The aim of these reforms is to increase transparency on how fiscal risks are managed and ensure accountability and a comprehensive understanding of the risks and what they pose as well as efficient and effective management of them.

The improvement of our public procurement system is also a priority and for us, to support value-for-money and ensuring our climate commitments are reflected in our own public procurement system. This year, the proposed amendments to the law on public procurement focus on provisions on climate change, a consolidation of the procurement approach for common use items, and in the handling for complaints. With these reforms we expect a consolidate approach based on the use of framework contracts, an enhanced list of procurement methods aligned with international best practices, and improved transparency through better handling of complaints.

Supporting social inclusion and climate change action

Over the years, we have strengthened our social protection program. It has been expanded to reach 2.1 million households by 2023 and amount to 1 percent of GDP, with provision of financial support to poor and vulnerable families. We have already taken steps to improve the efficiency of the social protection system. Under the last operation, we established the National Agency for Social Protection, to consolidate the overall social protection system to improve policy coordination and prevent operational fragmentation that improved efficiency of the system.

Our social protection system has also been extended to provide in-work benefits for employed individuals and households to encourage labor market participation. To protect against short-term risks and provide coverage for women having children and enable fluid work transition, our new initiative aims providing unemployment, sickness, and maternity benefits in accordance with social insurance principles. Some of these benefits, like sickness and maternity benefits, will be provided by employers. However, those that are self-employed or working in private sector might be overlooked in the current system. With our new social protection system, we aim to leave no one out who meets the eligibility criteria. All of these changes are reflected in the new social insurance law submitted to the Parliament.

We stated in our last letter that violence against women or children has no place in our society, and we want to reaffirm our firm commitment to this. Last year we passed a historical legislative package that criminalized intimate violence, as well as defining psychological violence and sexual harassment as criminal offenses for the first time. Building on this, this year we have submitted to the Parliament amendments to the Criminal Code to further ensure that women who have experienced domestic violence can seek justice effectively, by removing domestic violence from the list of crimes that can be resolved through reconciliation prior to a court hearing. These changes are expected to decrease the incidence and prevalence of gender-based violence.

As the international community takes collective action to mitigate climate change, we applaud the World Bank for taking a strong stance to support its members in addressing this challenge. The Republic of Uzbekistan, through cooperation with the World Bank, is also integrating climate-responsible practices and climate reforms. Our Green Development Plan sets ambitious economy-wide targets for reducing greenhouse gas emissions, green targets in energy, water, waste, and industry sectors, and initiated institutional reforms such as the creation of the Ministry of Environment, Ecology and Climate Change.

Furthermore, a National Green Taxonomy was developed with the World Bank, and approved. We remain committed to achieving the goals set in our Green Development Plan, and building off the National Green Taxonomy. This year we have adopted a regulatory framework for corporate green bonds issuance and started to channel financial support for climate and environmental investments through the Entrepreneurship Development Company, with the aim of incentivizing private sector investments in climate change.

In addition to this, we are also committing to tackling pollution. In doing so we have upgraded our Environmental Impact Assessment requirements to match international good practices and adopted legislation on the PM2.5 standard for air quality that will improve air quality management.

Uzbekistan is a downstream and water-scarce country, and therefore we are also implementing smarter water management practices to increase the efficiency of water usage and enhance responsible water practices to ensure our water security. The new Water Code was submitted to Parliament that boosts better water management, economic incentives to increase efficiency, and introducing public-private partnership mechanisms in water management. These reforms will help Uzbekistan to attract climate investment as well as to ensure Uzbekistan's commitment to climate and environmental responsibility.

Conclusion

Our will and commitment to successfully deliver on Uzbekistan's ambitious reform goals remain strong. The reforms I am presenting you here reflect the continuation of the reform journey we started, hand-in-hand, seven years ago. The World Bank is our trusted and dependable partner in this reform process. I hope that as we move forward with new waves of critical reforms, we can continue to count on the World Bank's support.

I would like to extend appreciation of the government of the Republic of Uzbekistan for the continued partnership, reliability, and support the World Bank has provided in meeting Uzbekistan's development goals. In the world as we find ourselves now, tackling climate change has now become center stage, and in Uzbekistan we are also prioritizing it, as achieving our goal of preserving a livable environment depends on talking climate change. I look forward for our continued work with you and your team, while we await your visit to Uzbekistan.

Sincerely,

Djamshid Kuchkarov
Deputy Prime-minister and
Minister of Economy and Finance

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Creating Markets		
Prior action #1: *To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024.*	Cost recovery is expected to yield positive environmental and climate benefits through incentivizing more rational energy use and attracting private investment in renewable energy. There is in principle a risk of increased used of solid fuels by lower-income households. However, this is mitigated by the several compensatory measures in place to reduce adverse impacts on low-income households, including those in PA2.	Potential regressive effects mitigated by the social norm (PA#2) and several other targeted social protection measures. By freeing up significant fiscal space for spending priorities which tend to support lower income households the most, this measure is expected to be progressive over time.
Prior action #2: To *further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 2024; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14, 2024, to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.*	This will positively contribute to energy efficiency and promote participation of the private sector in renewable energy. Like any form of development, promotion of investments in renewable energy, such as wind and solar energy, may have a downstream risk of negative impacts such as land use limitation and impacts on wildlife and ecosystems. To mitigate such a downstream risk, the government continues to strengthen the regulatory framework for EIA (Prior Action 10) to be applied for such investments.	Part (i) is described above alongside PA#1. Part (ii) is expected to be neutral.
Prior action #3: *To make railway reform more effective, the Borrower: (i) has submitted a Law on Railway Transport dated July 15, 2024 for Parliamentary approval that modifies the legal framework on competition regulation and tariff reform, promotes the shift to low-carbon transport, continues the organizational structuring of O'zbekiston temir yo'llari (JSC Uzbekistan Railways), and clarifies the role of the state in the railways sector; and (ii) through its Ministry of Transport, has approved the contractual framework for the first Public Service Agreement, through a Resolution of the Cabinet of Ministers No 425, dated July 16, 2024.*	Potentially positive environmental impacts through reduction of GHG emissions since rail transport is generally a more energy-efficient and low carbon mode than road and air transportation.	Neutral
Prior action #4: *To continue the liberalization of the agriculture sector and strengthen land tenure security in line with climate resilience, the Borrower has submitted amendments to the Land Code for Parliamentary approval on May 6, 2024 that remove the requirements on minimum farm yield and the mandatory farmers'*	Liberalization of the agriculture sector and strengthen land tenure security will have positive environmental outcomes through building community resilience to climate change and encouraging sustainable land management through adoption of Climate Smart agricultural practices.	Strongly Positive

membership in the Farmers Council in order to maintain land rental contracts.		
Prior action #5: *To improve the competitive investment environment, the Borrower has submitted a Law on Investments and Investment Activities for Parliamentary approval on July 15, 2024, that strengthens investor protection guarantees, investor services and increases climate change investments.*	Upgraded investment framework will increase climate change investments.	Positive
Operation Pillar 2: Improving Fiscal Risk Management and Public Procurement		
Prior Action #6: *To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; and (iii) submitted amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.*	Neutral Strengthening the public procurement system will support green public procurement which may contribute to positive environmental outcomes.	Neutral Neutral
Operation Pillar 3: Supporting Social Inclusion and Climate Change Action		
Prior Action #7: *To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024 that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.*	Neutral	Strongly Positive
Prior action #8: *To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024.*	Enforcement of the Energy Efficiency Law will contribute positively by reducing GHG emissions.	Positive
Prior action #9: *To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve*	The water code will have positive environmental outcome particularly by enhancing water use efficiency which will contribute to less energy use.	Positive

societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024.		
Prior action #10: *To strengthen the regulatory framework for environmental impact assessment, the Borrower has a law on* Environmental Expert Review and Environmental Impact Assessment ("EIA") *for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments.*	The EIA regulation will contribute to positive environmental outcomes by integrating climate change and environmental concerns into development projects.	Positive
Prior action #11: *To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5 to support greenhouse gas reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on May 27, 2024), and (ii) enacted measures under Presidential Decree No.37 dated February 21, 2024, and Cabinet Resolution No.166 dated March 29, 2024, to reduce transport sector emissions.*	The new air quality standards will have positive outcomes by improving air quality and public health.	Positive
Prior action #12: *To channel financing to climate investments, the Borrower (i) has approved Presidential Decree #193 dated November 10, 2023 on the alignment of state financial support programs with support for climate-friendly technologies, and approved as the main shareholder the new strategy for the State Fund for Supporting Entrepreneurship, (ii) has adopted regulatory amendments to the existing capital market regulations and established technical standards for the issuance of corporate green bonds via (a) amendment 2000-10 dated June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues; and (b) the issuance by Order No.51 of the Director of the National Agency of Prospective Projects, dated June 14, 2024.*	The green bond will have positive environmental outcomes by encouraging investments in climate change adaptation and mitigation measures.	Neutral

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program 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 climate change action.	
Step 1: Taking into account WB's climate analysis (e.g., Country Climate and Development Reports), is the operation consistent with the country climate commitments, including (for instance) the NDC, National Action Plan, Long-Term Strategy (LTS), and other relevant strategies?	**Yes.** The DPF is consistent with the findings of the Uzbekistan CCDR,[1] with Uzbekistan's 2021 updated NDCs[2] to the Paris Agreement, as well as with the 2022 Presidential Decree[3]. The NDCs foresee 35% reduction of GHG emissions per unit of GDP by 2030 (vs 2010 level), with actions in sectors of Energy, Industrial Processes and Product Use, Agriculture, Forestry and Other Land Use, Waste. The Presidential Decree introduces accelerated measures to comprehensively organize work to improve energy efficiency, widespread introduction of energy-saving technologies and renewable energy sources, and drastically reduce energy intensity sectors of the economy, by involving existing resources and unused potential. The proposed reforms in several prior actions address some of the main mitigation and adaptation priorities of the country and contribute to climate action.
Mitigation goals: assessing and reducing the risks	
Pillar 1: Creating Markets	Prior Actions 1, 2, 3, 4 and 5
PA1	To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024.
PA2	To further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 2024; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14, 2024 to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.
PA3	To make railway reform more effective, the Borrower: (i) has submitted a Law on Railway Transport dated July 15, 2024 for Parliamentary approval that modifies the legal framework on competition regulation and tariff reform, promotes the shift to low-carbon transport, continues the organizational structuring of O'zbekiston temir yo'llari (JSC Uzbekistan Railways), and clarifies the role of the state in the railways sector; and (ii) through its Ministry of Transport, has approved the contractual framework for the first Public Service Agreement, through a Resolution of the Cabinet of Ministers No.425, dated July 16, 2024.
PA4	To continue the liberalization of the agriculture sector and strengthen land tenure security in line with climate resilience, the Borrower has submitted amendments to the Land Code for Parliamentary approval on May 6, 2024 that remove the requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.
PA5	To improve the competitive investment environment, the Borrower has submitted a Law on Investments and Investment Activities for Parliamentary approval on July 15, 2024, that strengthens investor protection guarantees, investor services and increases climate change investments.
Step M2.1: Are Prior Actions 1, 2, 3, 4 and 5 likely to cause a significant increase in GHG emissions?	**No.** The reforms under PAs 1 and 3 are expected to directly decrease GHG emissions, while the reforms under PAs 4 and 5 are expected to reduce GHG emissions by introducing Climate Smart Agriculture and mobilizing investments in climate change mitigation. Therefore, all Prior Actions from Pillar 1 that are aimed at creating markets are not likely to cause significant increase of GHG emissions or introduce any persistent barriers to transition to the country's low GHG emissions development pathways.

Conclusion Pillar 1 (Prior Actions 1, 2, 3, 4 and 5): The reforms within Pillar 1 are not likely to cause a substantial increase of GHG emissions and are aligned with the mitigation goals of the Paris Agreement.	
Pillar 2: Improving Fiscal Risk Managen and Public Procurement	Prior Action 6
PA6	To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; and (iii) submitted amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.
Step M2.1: Are the prior actions likely to cause a significant increase in GHG emissions?	**No.** Prior Actions 6 from Pillar 2 is aimed at strengthening fiscal risk management and the public procurement system, including green procurement. The reforms are not likely to cause significant increase of GHG emissions or introduce any persistent barriers to transition to the country's low GHG emissions development pathways.
Conclusion Pillar 2 (PA 6): The reforms within Pillar 2 are not likely to cause a substantial increase of GHG emissions and are aligned with the mitigation goals of the Paris Agreement.	
Pillar 3: Supporting Social Inclusion an Climate Change Action	Prior Actions 7, 8, 9, 10, 11 and12
PA7	To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024 that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.
PA8	To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024.
PA9	To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024.
PA10	To strengthen the regulatory framework for environmental impact assessment, the Borrower has submitted a law on Environmental Expert Review and Environmental Impact Assessment ("EIA") for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments.
PA11	To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5 to support GHG reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on May 27, 2024); and (ii) enacted measures under Presidential Decree No 37 dated February 21, 2024, and Cabinet Resolution No 166 dated March 29, 2024, to reduce transport sector emissions.
PA12	To channel financing to climate investments, the Borrower (i) has adopted Presidential Decree #193 dated November 10, 2023 on the alignment of state financial support

	programs with climate-friendly technologies, and approved as the main shareholder the new strategy for the State Fund for Supporting Entrepreneurship, (ii) has adopted regulatory amendments to the existing capital market regulations and established technical standards for the issuance of corporate green bonds via (a) amendment 2000-10 dated June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues, and (b) the issuance by Order No.51 of the Director of the National Agency of Prospective Projects, dated June 14, 2024.
Step M2.1: Are the prior actions likely to cause a significant increase in GHG emissions?	**No.** Prior Actions 7 and 9 are aimed at protecting vulnerable groups (including from the adverse impacts of climate change) and will not cause any increase of GHG emissions. The reforms under PA9 will increase energy efficiency at brownfield installations and directly reduce GHG emissions without causing barriers for low-carbon development. Reforms under PAs 10, 11 and 12 will directly reduce GHG emissions. Therefore, the reforms are not likely to cause significant increase of GHG emissions or introduce any persistent barriers to transition to the country's low GHG emissions development pathways.
Conclusion Pillar 3 (PA 7, 8, 9, 10, 11 and 12): The reforms within Pillar 2 are not likely to cause a substantial increase of GHG emissions and are aligned with the mitigation goals of the Paris Agreement.	
Conclusion Mitigation Goals for the DPO: The operation is aligned with the mitigation goals of the Paris Agreement	

Adaptation and resilience goals: Assessing and managing the risks	
Pillar 1: Creating Markets	Prior Actions 1, 2, 3, 4 and 5
PA1	To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024.
PA2	To further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 202; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14, 2024. to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.
PA3	To make railway reform more effective, the Borrower: (i) has submitted a Law on Railway Transport dated July 15, 2024 for Parliamentary approval that modifies the legal framework on competition regulation and tariff reform, promotes the shift to low-carbon transport, continues the organizational structuring of O'zbekiston temir yo'llari (JSC Uzbekistan Railways), and clarifies the role of the state in the railways sector; and (ii) through its Ministry of Transport, has approved the contractual framework for the first Public Service Agreement, through a Resolution of the Cabinet of Ministers No. 425, dated July 16, 2024.
PA4	To continue the liberalization of the agriculture sector and strengthen land tenure security in line with climate resilience, the Borrower has submitted amendments to the Land Code for Parliamentary approval on May 6, 2024 that remove the requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.
PA5	To improve the competitive investment environment, the Borrower has submitted a Law on Investments and Investment Activities for Parliamentary approval on July 15, 2024, that strengthens investor protection guarantees, investor services and increases climate change investments.
Step A2: Are risks from climate hazards likely to have an adverse	**No.** The anticipated risks from climate hazards in Uzbekistan are unlikely to significantly impact the effectiveness of the reforms in Pillar 1. As the reforms under these five Prior

effect on the prior action's contribution to the Development Objective(s)?	Actions are aimed at creating markets and attracting investments, they are also expected to increase resilience of the sectors to the anticipated impacts of climate change compared to the current state, at which the awareness of climate change risks and vulnerabilities is generally low. Investments under these reforms (energy, agriculture and transport) are expected to consider climate-related hazards on their locations and, if necessary, undertake measures to reduce climate risks to acceptable levels.
Conclusion Pillar 1 (PA 1, 2, 3, 4 and 5): The reforms within Pillar 1 are aligned with the adaptation and resilience goals of the Paris Agreement.	
Pillar 2: Improving Fiscal Risk Management and Public Procurement	Prior Action 6
PA6	To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; and (iii) submitted amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**No.** The anticipated risks from climate hazards in Uzbekistan are unlikely to significantly impact the effectiveness of the reforms in Pillar 2. The reforms under these two Prior Actions are introducing climate change concerns and are aimed at strengthening fiscal risk management and the public procurement system, also against the anticipated impacts of climate change.
Conclusion Pillar 2 (PA 6): The reforms within Pillar 2 are aligned with the adaptation and resilience goals of the Paris Agreement.	
Pillar 3: Supporting Social Inclusion and Climate Change Action	Prior Actions 7, 8, 9, 10, 11 and 12
PA7	To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024 that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.
PA8	To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024.
PA9	To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024.
PA10	To strengthen the regulatory framework for environmental impact assessment, the Borrower has submitted a law on Environmental Expert Review and Environmental Impact Assessment ("EIA") for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments.
PA11	To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5 to support greenhouse gas reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on

	May 27, 2024); and (ii) enacted measures under Presidential Decree No.37 dated February 21, 2024, and Cabinet Resolution No.166 dated March 29, 2024,to reduce transport sector emissions.
PA12	To channel financing to climate investments, the Borrower (i) has adopted Presidential Decree #193 dated November 10, 2023 on the alignment of state financial support programs with support for climate-friendly technologies, and approved as the main shareholder the new strategy for the State Fund for Supporting Entrepreneurship, (ii) has adopted regulatory amendments to the existing capital market regulations and established technical standards for the issuance of corporate green bonds via (a) amendment 2000-10 dated June 7, 2024, to the Rules for the Issue of Securities and State Registration of Issues, and (b) the issuance by Order No.51 of the Director of the National Agency of Prospective Projects, dated June 14, 2024.
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. The anticipated risks from climate hazards in Uzbekistan are not expected to impact the effectiveness of the reforms. Reforms under PAs 7, 9, 10 and 12 are also aimed at supporting adaptation and strengthening climate resilience of the sectors they address. Investments under reforms supported by PAs 9 and 11 are expected to consider climate-related hazards on their locations and, if necessary, undertake measures to reduce climate risks to acceptable levels.
Conclusion Pillar 3 (PAs 7, 8, 9, 10, 11 and 12): The reforms within Pillar 3 are aligned with the adaptation and resilience goals of the Paris Agreement.	
Conclusion Adaptation and Resilience Goals for the DPO: The operation is aligned with the adaptation and resilience goals of the Paris Agreement	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESEMENT: The operation is aligned with the goals of the Paris Agreement	

[1] https://openknowledge.worldbank.org/entities/publication/686d0297-b311-4296-ab33-51d1859c6b32
[2] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf
[3] https://www.fao.org/faolex/results/details/en/c/LEX-FAOC197281/

ANNEX 6: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES

Original Pillars, Indicative Triggers, and Results Indicators (as per DPO1)	Updated DPF Results Framework	Comments
Pillar 1: Creating markets		
Indicative Trigger #1. To further strengthen the energy sector legal and regulatory framework, the Borrower: (i) initiates systematic tariff adjustments and accelerates the removal of energy subsidies; (ii) introduces a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers; and (iii) submits a new Electricity Law to the Parliament to improve the legal, regulatory, and institutional framework and promote private sector participation in the sector.	**(New) Prior Action #1.** To further strengthen the financial viability and sustainability of the energy sector, the Borrower has approved a tiered tariff structure and increased tariffs to accelerate the removal of energy subsidies through a Resolution of the Cabinet of Ministers No.204 dated, April 16, 2024. **(New) Prior Action #2.** To further strengthen the legal and regulatory framework to promote competition in the energy sector while protecting affordable access, the Borrower has: (i) approved a lifeline tariff to protect low-income households, through a Resolution of the Cabinet of Ministers No.204, dated April 16, 2024; and (ii) submitted a Electricity Law for Parliamentary approval dated June 14, 2024, to improve the legal, regulatory, and institutional framework and promote private sector participation, with renewable energy as a priority.	The indicative trigger #1 has been separated into two prior actions as each of these are important reforms on their own.
	(New) Results Indicator #2 Share of social protection recipients that are below the 'social norm' for: a) electricity; b) gas (during heating season) **Baseline:** Electricity – 0% of social protection recipients Natural gas – 0% of social protection recipients (September 2023) **Target:** Electricity – 70% of social protection recipients Natural gas – 70% of social protection recipients (December 2026)	A new result indicator has been added for new Prior Action #2 to capture the share of low-income households that benefit from the 'social norm' energy tariff.

Results Indicator #2. Existence of a budgeted PSA **Baseline:** No PSA exists. (September 2023) **Target:** PSA presented in the public budget. (end-2026)	**Results Indicator #3.** Existence of a budgeted PSA with key performance indicators. **Baseline:** No PSA exists. (September 2023) **Target:** PSA with key performance indicators presented in the public budget. (December 2026)	The result indicator Prior Action #3 has been strengthened.
Indicative Trigger #3. To attract private capital to the chemical sector, the Borrower approves the restructuring and privatization strategy of NavoiAzot, through the Presidential Resolution.	This indicative trigger has been dropped from the program.	The government has experienced delays in preparation of the restructuring and privatization strategy of NavoiAzot. However, the government has expressed its commitment to continuing reforms to raise private participation in the chemicals sector. The approval of the restructuring and privatization strategy of NavoiAzot is expected to proceed as soon as possible, but it is no longer expected in 2024. Given their ongoing efforts in this area, the results indicator for this policy area has been retained.
Pillar 2: Improving Fiscal Risk Management and Public Procurement		
Indicative Trigger #6. To strengthen the management of fiscal risk, the Borrower: (a) prepares and publishes a new fiscal risk statement, which covers all major fiscal risks and contingent liabilities, including those from SOEs; and (b) begins regular publication of (i) a comprehensive annual report of fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts, and (ii) all documents and analysis relating to PPP projects on a website. **Indicative Trigger #7.** To strengthen public procurement system, the Borrower amends the Public Procurement Law which strengthens integrity, transparency, and openness of the system.	**(New) Prior Action #6.** To strengthen public financial management, the Borrower has: (i) begun regular publication of a new climate-informed fiscal risk statement, which covers major fiscal risks and contingent liabilities including fiscal commitments arising from public-private partnership contracts, both explicit and contingent, and from both effective and signed PPP contracts, on June 26, 2024; (ii) begun regular publication on the website of the Department for Implementation of PPP projects a report of signed PPP contracts from February 2020, including details of parties and contract amounts; (iii) submitted amendments to the Public Procurement Law for Parliamentary approval on June 14, 2024, including amendments that promote climate change priorities through the public procurement system and strengthen the system's integrity, transparency and openness.	Indicative Triggers #6 and #7 have been merged for consolidation purposes.

Results Indicator #6. Fiscal risk framework and publication of report on contingent liabilities from the PPPs. **Baseline:** No fiscal framework or methodology and no report on contingent liabilities from PPPs. (September 2023) **Target:** Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least **1** fiscal risk report covering PPP contingent liabilities (end-2026) **Results Indicator #7.** The share of competitive (electronic) public procurement in total procurement **Baseline:** 43.6% (2022) **Target:** 60% (end-2026)	**Results Indicator #7.** Fiscal risk framework and publication of report on contingent liabilities from the PPPs. **Baseline:** No fiscal framework or methodology and no report on contingent liabilities from PPPs. (September 2023) **Target:** Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least **2** fiscal risk reports covering PPP contingent liabilities (December 2026) **Results** Indicator **#8.** Share of total public procurement that is: i) subject to competitive, electronic means; ii) green public procurement.[65] **Baseline:** i) 43.6% (2022) ii) 0% (December 2022) **Target:** i) 60% (end-2026) ii) 15% (December 2026)	Result indicators have been strengthened. Revised result indicator #7 has been strengthened to measure publication of climate-sensitive fiscal risk statements (at least two). In addition, result indicator #8 has been expanded to measure the share of public procurement that is green.
Pillar 3: Supporting Social Inclusion and Green Resilience	**Pillar 3: Supporting Social Inclusion and Climate Change Action**	The pillar name has been adjusted to better reflect the reform actions.
Indicative Trigger #8. To expand the provision of in-work benefits, the Borrower submits to parliament a Law on social insurance to establish a contributory system of unemployment, sickness, accident, and disability-in-work benefits. **Indicative Trigger #9.** To further strengthen the protection of women from violence, the Borrower amends the criminal code to remove domestic violence cases from the list of criminal cases that can be resolved through reconciliation.	**(New) Prior Action #7.** To support climate-responsive social inclusion, the Borrower has: (i) submitted a Law for Parliamentary approval dated July 16, 2024, on State Social Insurance that establishes a contributory system of unemployment, sickness and maternity benefits; and; (ii) submitted the amendments to the Criminal Code for Parliamentary approval on June 14, 2024 that removes domestic violence cases from the list of criminal cases that can be resolved through reconciliation prior to a court hearing.	Indicative Triggers #8 and #9 have been merged for consolidation purposes.
	(New) Prior Action #8. To reduce greenhouse gas emissions from primary energy sources, including oil, coal, and natural gas, through energy efficiency measures, the Borrower has submitted a Law on Energy Conservation and Efficient Use of Energy for Parliamentary approval on June 14, 2024. **Results Indicator #12.** GHG emission reductions from energy efficiency	This reform action has been added due to its significance in enhancing energy efficiency and addressing climate change.

[65] This is a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured.

	measures at major emitters (25 largest SOEs) **Baseline:** 0 (January 2024) **Target:** 1.5 million tCO2 (December 2026)	
	(New) Prior Action #9. To clarify institutional responsibilities in the water sector, and strengthen the principles of effective management of water resources to improve societal well-being and climate resilience, the Borrower has submitted a Water Code for Parliamentary approval on July 3, 2024. **Results Indicator #13.** Number of water management balances prepared for river basins incorporating the effects of climate change and published. **Baseline:** 0 (July 2024) **Target:** 3 (December 2026)	This reform actions has been added due to its significance in enhancing water resource efficiency and addressing climate change.
Indicative Trigger #10. To further strengthen the regulatory framework, the Borrower upgrades EIA regulations, adopts new air quality standards, and targets particulate matter and transport emissions.	**(New) Prior Action #10.** To strengthen the regulatory framework for environmental impact assessment, the Borrower has submitted a law on Environmental Expert Review and Environmental Impact Assessment ("EIA") for Parliamentary approval on July 9, 2024, that strengthens EIA regulations to include climate change risks and other enhancements to raise the standard of environmental impact assessments. **(New) Prior Action #11.** To further reduce emissions, the Borrower has: (i) adopted new air quality standards for PM2.5 to support greenhouse gas reductions (as evidenced by the Resolution No.13 of the Sanitary-Epidemiology and Public Wellbeing Committee under the Ministry of Health dated May 21, 2024 as registered by the Ministry of Justice under No.253, on May 27, 2024); and (ii) enacted measures under Presidential Decree No.37 dated February 21, 2024, and Cabinet Resolution No.166 dated March 29, 2024, to reduce transport sector emissions.	The indicative Trigger #1 has been separated into two prior actions as each of these are important reforms on their own. The result indicator has been separated accordingly.

ANNEX 7: DPO PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Pillar 1: Strengthening Market Institutions and the Environment for Private Sector Growth	
Energy market reforms (including energy efficiency, Pillar 3)	WBG Uzbekistan Country Climate and Development Report (2023) (P179068); World Bank Listening to the Citizens of Uzbekistan L2CU (2021) (P171949). WB Support for Preparation of Energy Sector Strategy PASA (P168487). World Bank Uzbekistan Innovative Carbon Resource Application for Energy Transition (iCRAFT) Project (P180432). Electricity Sector Transformation and Resilient Transmission (P171683), Energy Efficiency in Industrial Enterprises Project (P118737), Roadmap of Uzbekistan Industrial Decarbonization (2022, PASA P168487), Energy Sector Strategy Deploying Energy Efficiency and Distributed Solar in the Public Buildings (2022, PASA P168487)
Railway sector reforms	World Bank TA “Proposed Strategy for the Reform of the Railway Sector in Uzbekistan.” Greener Railways for Connectivity and Trade (P177764)
Agriculture reforms	WBG Uzbekistan Country Climate and Development Report (2023) (P179068); World Bank Uzbekistan: Review of Agriculture Strategy Implementation 2020/2021 Advisory Services and Analytics (ASA); World Bank Enhancing Agricultural Land Tenure Security in Uzbekistan (2022) (P175696); World Bank Support for Agriculture Land Tenure Reforms in Uzbekistan (2024) (ASA P175696); World Bank’s Just-In-Time Policy Notes on Cotton Sector Reforms (2021-2024) (ASA TF 0B7118). World Bank Just-in-Time Policy Note on Uzbekistan State Fund for Agriculture Support: Second Phase Reforms (2022).
Investment reforms	World Bank Recommendations for a National FDI Strategy and Roadmap for Uzbekistan (2022) (P176729); IFC Uzbekistan Investment Climate (IC) – Fertilizer Sector Growth project (#604235)
Pillar 2: Improving Fiscal Risks Management and Public Procurement System	
Public financial management	World Bank Uzbekistan Second Public Expenditure Review (2022) (P173140); World Bank Uzbekistan PPP Agenda and Fiscal Framework Implementation Support (P500909); Review and assessment of the Public Procurement Law of the Republic of Uzbekistan;
Pillar 3: Supporting Social Inclusion and Climate Change Action	
Social inclusion	World Bank Uzbekistan Second Public Expenditure Review (2022) (P173140); World Bank/International Labor Organization/UNICEF An assessment of the social protection system in Uzbekistan based on the Core Diagnostic instrument (CODI) (2020). World Bank Country Gender Assessment for Uzbekistan (2024) (under Effective Governance for Economic Development (P175696)); World Bank Gender and Gender Based Violence Program in Central Asia (P179974)), unpublished; Women, Business, and the Law (2023) Country Snapshot for Uzbekistan.
Water sector reforms	Recently completed analytical work Policy Perspectives for Irrigation and Drainage Sector Reform (supported by a grant from the Central Asia and Water and Energy Program-CAWEP); National Irrigation and Energy Efficiency Improvement Project (P504600); Next Generation Irrigation Management (P504600-TF0C4500) grant by CAWEP. Ferghana Valley Water Resources Management Project (P149610); Planned Multi-Phased Regional Water Efficiency and Conservation Program.
Environmental impact assessment	World Bank Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis) (P178522)
Air quality	WBG Uzbekistan Country Climate and Development Report (2023) (P179068); Central Asia Air Quality Management (P500574) (forthcoming 2024); World Bank Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis) (P178522)
Climate finance	World Bank Guidance Note on Uzbekistan Green Taxonomy (P177108 & P180499); Uzbekistan Economy-Wide Climate Action Support ASA (P180449); WBG Uzbekistan Country Climate and Development Report (2023) (P179068); World Bank Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis) (P178522)

ANNEX 8: PROPOSED REFORM ACTIONS SUPPORTED UNDER THIS PROGRAM AND UZBEKISTAN CCDR

<table>
<tr><th colspan="2">CCDR Recommendations: Urgent Climate Actions</th><th>Supported by this DPO</th></tr>
<tr><td colspan="2">Cross-cutting</td><td></td></tr>
<tr><td colspan="2">Set ambitious NDC and carbon neutrality targets</td><td>The first DPO supported the setting of ambitious NDC targets, while this second DPO supports implementation actions for meeting these targets, as listed below.</td></tr>
<tr><td colspan="2">Improve investment environment and strengthen private sector reforms</td><td>Prior Actions 1, 2, 3, 4, and 5 improve conditions for private sector in the energy, and rail sectors, and Prior Actions 6 and 12 support climate-resilient infrastructure projects, including PPPs, and private financing for climate investments. Prior Action 6 includes green public procurement which supports the investment environment.</td></tr>
<tr><td colspan="2">Green taxonomy and MRV system</td><td>Prior Action 12 extends the use of green taxonomy and monitoring requirements as part of public and private finance mobilization.</td></tr>
<tr><td colspan="2">Sectoral</td><td></td></tr>
<tr><td rowspan="4">Energy</td><td>Complete energy subsidy reform</td><td>Supported by the DPO under tariff adjustments of Prior Action 1 and 2.</td></tr>
<tr><td>Energy efficiency in industrial sectors and buildings</td><td>Prior Action 8 sets energy efficiency standards for these sectors.</td></tr>
<tr><td>No new coal; prioritize natural gas</td><td>Not included in the DPO.</td></tr>
<tr><td>Reduce gas losses and fugitive emissions</td><td>Included in DPO under the climate finance mobilization of Prior Action 12.</td></tr>
<tr><td>Urban</td><td>Focus on green urban development</td><td>Included in DPO under the climate finance mobilization of Prior Action 12 which includes investments in green buildings and urban development.</td></tr>
<tr><td rowspan="3">Water, Agri, land-use</td><td>Increase efficiency in irrigation</td><td>Included in DPO under the water efficiency targets of Prior Actions 9 on the Water Code</td></tr>
<tr><td>Incentivize Climate-Smart Agriculture</td><td>Partially included in DPO under strengthened land tenure and production liberalization of Prior Action 4.</td></tr>
<tr><td>Invest in landscape restoration and adaptation</td><td>Not included in the DPO.</td></tr>
<tr><td>Human Development</td><td>Human development to reduce climate risk & support green transition</td><td>Partially included in DPO through the community engagement under the lifeline tariff of Prior Action 2 and more climate-informed social insurance under Prior Action 7.</td></tr>
<tr><td>Subnational development</td><td>Empower local governments for climate policy design and implementation</td><td>Partially included in DPO under the role of local authorities in water management that boosts resilience to climate change under Prior Action 9.</td></tr>
</table>

ANNEX 9: OVERVIEW OF REFORMS SUPPORTED UNDER PREVIOUS DPOS

Sector	Reforms supported in previous engagements	Reform actions supported - in this DPO	Major results to date
Areas of support across all DPOs since 2017			
Energy	• New renewable energy legal and institutional framework • New energy tariff policy and methodology; establishment of a new tariff commission to improve independence of tariff-setting • Electricity and gas tariff reforms to strengthen cost-recovery • IFRS accounts and audits of main energy and gas SOEs • Ending all retail petroleum price controls (and subsidies) Removing constraints to increased private sector investments in energy generation PPPs • New energy tariff reform for legal entities • Independent energy regulator	• Energy tariff reform for households • New Electricity Law • New Energy Efficiency Law	• Unbundling of vertical gas and electricity SOEs, separation of policy/regulation to new Ministry of Energy • First competitive and transparent private investments in power generation in Uzbekistan's history • Petroleum prices are freely determined in the market and have been allowed to adjust to recent spikes in oil prices without intervention
Improving the business and trading environment	• Unification of exchange rate through an unannounced 50 percent overnight devaluation of the sum against the US dollar • The removal of all current account foreign exchange restrictions and export earnings surrender requirements • Removal of onerous domestic trading licensing regulations and firm-to-firm advance prepayment requirements • Price liberalization and removal of trading restrictions to allow market-based formation of prices • Reduction in average import tariffs • New competition law • New insolvency law	• New Investment Law • New Public Procurement Law	• Average import tariffs fell from 13 to 8 percent • Foreign exchange access, once the biggest firm constraint, is no longer a problem • Record increases in 2019 and first three quarters of 2020 in domestic trading businesses • Average tariffs have fallen from 13 to 7.9 percent
SOE reform and privatization	• Privatization of one of the largest chemical plant FerganaAzot • Unbundling of UKS • Institutional restructuring and unbundling of Uzbekistan Railways (OTY)	• New Railway Law • Approval of contractual framework for the first Public Service Agreement	• Identification and transfer of all SOE shares to new agency and initiation of privatization process. • Forthcoming PPPs of domestic airports • Close to 500 small SOEs have been

			privatized or liquidated since the start of the process. • Corporate governance and financial transparency reforms for the largest SOEs remain on-track.
Fiscal transparency	• Full disclosure of budget information to public • Preparation of citizen budgets to explain public spending. • Fiscal consolidation to close and consolidate off-budget accounts • New community-level budgets where citizens can determine how spending occurs • Integration of UFRD revenue/expenditure into State budget (4% of GDP of off-budget spending now on-budget) • Transfer of budget approval and accountability from Cabinet/President to Parliament and regional parliaments • New public debt law enshrining debt ceiling and measures to enhance fiscal discipline when public debt nears the ceiling • Enhanced financial reporting and transparency requirements to improve fiscal risk monitoring • Enhanced fiscal risk management: evaluating, monitoring and reporting on contingent liabilities in PPP project and defining the methodology.	• Disclosure of fiscal risk report including climate fiscal risks	• The full 2021 Budget will be publicly consulted before submission to Parliament, the first time in Uzbekistan's history • Substantial reduction in off-budget spending, from over 6 percent of GDP to less than 1 percent of GDP projected in 2022 • The 2022 Budget will be the first in Uzbekistan's history to fully consolidate all public spending into the approved parliamentary budget law. In 2018, more money was being spent outside the consolidated budget.
Agriculture	• Large reduction in cotton/wheat growing areas • Increase in wheat and cotton farmgate prices to equalize with international benchmarks • Removal of almost all horticulture export barriers • Liberalization of bread prices • Ending mandatory cotton production targets for farmers, and all mandatory state cotton production surrender requirements • Full liberalization of wheat market	• Strengthening land tenure security through amendments in land code.	• A revival of agriculture growth and record horticultural exports • Estimated 1.2 percent of GDP increase in rural incomes from higher farmgate prices for cotton and wheat production • End of systematic forced and child labor

	• Abolition of crop placement system for all crops		
Social protection, labor markets, social inclusion and gender	• Ending systematic forced and child labor by the state • Expansion in social assistance beneficiaries to support price liberalizations in 2017 (large price control removals), 2018 (bread and energy tariffs), 2019 (energy tariffs), 2020 (COVID) • Creation of a unified social registry • Improved seasonal contractual conditions and obligations. • Tax reforms to address disproportionate labor taxes discouraging formal employment • Decriminalization and abolishment of internal migration restrictions • 10% increase in low-income allowance beneficiaries for COVID • Countrywide rollout of a new unified social registry to consolidate and improve safety net coverage and amounts • New legal framework to prevent gender-based violence. • Legal guarantees of equal opportunities for women • New poverty line based on international best practices • New labor code enshrining equal work for equal pay and other protections for workers • Ratification of UN Convention on the Rights of Persons with Disabilities • New social protection strategy that enshrines the single registry as the primary delivery mechanism • Revision of maternity benefits regulations to remove barriers to greater private sector female employment • Establishment of National Agency for Social protection to consolidate and strengthen the social protection system • Enactment of GBV law	• Further improvement in fighting against Gender Based violence (removal of reconciliation) • New Social Insurance Law	• Record increases in registrations of income taxpayers (especially female taxpayers) • Largest social assistance beneficiary expansions since independence • Social assistance levels revised significantly upwards to meet new poverty line adopted by the government • Complete transformation of safety net system with single registry, with transparent data on applications and decisions • The single registry is now in operation across all regions of the country. The focus of policy reforms has shifted to streamlining types of assistance, expanding coverage, and increasing payments in line with new poverty measures.

	• Enactment of free legal aid law		
Climate change	First time actions in: • economy wide GHG target and green targets in energy, water, waste, and industry sectors • established a green taxonomy and trigger on green finance mechanisms • strengthened climate change institution • strengthened air pollution control framework and trigger on EIA improvements	• New Water Code • New EIA Law • Adoption of air quality standards • The alignment of state financial support programs with climate change policy and approved as the main shareholder the new strategy for the SFSE • Adoption of regulatory amendments to the existing capital market regulations and established technical standards for corporate green bonds.	A new GHG MRV regulation is under legislative passage. New air quality monitoring stations have been deployed. The national green taxonomy is being used in-house in banks and state-owned entities. GHG reductions from initial energy tariff adjustments have being credited for pilot carbon transactions. SDG aligned bonds have been issued by the government and climate-based budget tagging is being piloted.
Reforms Supported under Previous DPOs.			
Financial Sector	• Strengthened prudential requirements to comply with Basel Core Principles, and stress testing requirements • Modernization of banking legislation • Ending UFRD on-lending via commercial banks • Ending almost all preferential lending by state banks • Strengthening independent governance of Bank boards • Expansion of financial sector markets through non-bank credit organizations legislative and regulatory overhaul.		• Substantial improvement in capital and liquidity buffers • Sharp slowdown in preferential lending and credit growth from state-directed lending • Almost all bank lending now is being priced at rates above the reference rate