Public Disclosure Authorized

Public Disclosure Authorized

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Aug-2024 | Report No: PIDIC00164

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Uzbekistan	P501037	Second Inclusive and Resilient Market Economy Development Policy Operation	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	12-Dec-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Uzbekistan	Ministry of Economy and Finance		

Proposed Development Objective(s)

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

Financing (US$, Millions)

Maximizing Finance for Development

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

SUMMARY

Total Financing	**800.00**

DETAILS

Total World Bank Group Financing	**800.00**
World Bank Lending	800.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Uzbekistan is midway through an ambitious, historic reform program in a bid to rapidly converge to higher income levels.** Uzbekistan's 36 million people have limited economic means, with an Atlas gross national income per capita of US$2,360 in 2023. A continuous program of reform since 2017 has seen Uzbekistan become one of the world's top reformers, with average GDP growth since 2017 of 5.3 percent outperforming many peers. However, further, and even bolder reform steps are needed to meet Uzbekistan's goal of reaching upper middle-income status by 2030.

2. **To maintain its ambitious trajectory, Uzbekistan needs to continue to improve the business environment, proactively act on climate change, and ensure inclusive and efficient public services.** Uzbekistan's rapid growth will depend on an increasingly vibrant private sector, which will require continued reforms to reduce the role of the state in the economy and ensure open access and fair competition in markets. It will also be essential that public sector resources are utilized efficiently to crowd in greater private investment, improve public services and support vulnerable groups. Finally, navigating the twin-pronged threat and opportunity that climate change presents will be essential, to adapt to the expected impacts of climate change and to take advantage of green growth opportunities.

Relationship to CPF

This proposed operation is fully consistent with the focus areas of the CPF. All three pillars of the PDO are consistent with the first 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 support the second HLO of the CPF on improving human capital (Objective 2.3: expanding social protection coverage and improving inclusive labor market policies). The actions relating to energy sector reform, climate change and air pollution are consistent with the third HLO of the CPF, specifically Objective 3.1 on decarbonization and green development of the economy and Objective 3.2 on more efficient use of natural resources.

C. Proposed Development Objective(s)

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

Key Results

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

D. Concept Description

This operation consists of fourteen prior actions organized into three pillars. Pillar 1 Creating Markets (prior actions 1-5) will focus on strengthening regulatory quality, competition and market orientation in the energy, rail, and agriculture sectors and improve the legislative framework for investment. Pillar 2 Improving Fiscal Risk Management and Public Procurement (prior actions 6 and 7) will support the commencement of publication of a new Fiscal Risk Statement and further details about fiscal commitments arising from public-private partnerships, and a new Public Procurement Law. Pillar 3: Supporting Social Inclusion and Climate Change Action (prior actions 8-14) will support a new Law on Social Insurance, further measures to protection women against violence, a new Energy Efficiency law, a new Water Code, strengthened national Environmental Impact Assessment regulations, new air quality standards and a new framework to support the climate-responsive corporate bonds and state support programs.

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

Poverty and Social Impacts

The Ministry of Economy and Finance (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 Assets Management Agency, the Ministry of Employment and Poverty Reduction, the Ministry of Ecology, Environmental Protection and Climate Change, the Development Strategy Centre, the Center for Economic Research under the Presidential Administration, the National Social Protection Agency, 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. These institutions' technical capacity is adequate to regularly monitor the indicators and outcome measures.

Environmental, Forests, and Other Natural Resource Aspects

Ten out of the 14 prior actions have favorable poverty and distributional implications. Three of these are expected to have strongly positive distributional impacts, namely measures to Liberalizing the agriculture market and strengthen land tenure security (Prior action #4), expand the provision of in-work benefits (#8), and strengthen the protection of gender-based violence (#9). Enhancing market competitiveness and job creation through reforms in the investment environment (#5) are most likely to have positive impacts. Additionally, water resource management (#11) and air quality management by reducing GHG emission (#10) and PM2.5 (#13) and upgrading the environmental impact assessment (EIA) regulations (#12) 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 (#1, #2) could have short-term risks of increased poverty, the accompanying social protection measures are expected to mitigate negative impacts. The other actions envisioned in this DPO will likely have neutral impacts across socio-economic groups.

The negative environment, natural resources and forests impacts of the prior actions supported under the three pillars of this operation are minimal to nil. Reforms in the energy, agriculture and railway sectors under Pillar 1 will continue the ongoing energy tariff adjustments, reforms land tenure and railway tariff. These will help promote efficient energy use, climate resilience and increase investments in renewable energy which will contribute to reduction of GHG emissions. However, it is important to note that renewable energy initiatives may have potential negative impacts on wildlife (including migratory birds) other ecosystem services. Mitigation measures to address negative impacts of renewable energy should be properly assessed upstream and appropriate mitigation measures developed. Pillar 2 will encourage green procurement that will have a positive environmental outcome. Pillar 3 will have direct and significant contribution to the environment by reducing GHG emissions by promoting efficient energy and water use, improving air quality, and integrating climate change adaptation and mitigation measures into development projects. As part of DPO 6, the government updated its EIA to address impacts of development projects on climate change. The Ministry of Ecology, Environmental Protection and Climate Change should play a key role in mitigating the potential negative impacts of this operation by effectively applying its EIA.

G. Risks and Mitigation

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

CONTACT POINT

World Bank

Pinar Yasar
Senior Economist

Wei-Jen Leow
Senior Environmental Finance Specialist

Borrower/Client/Recipient

Republic of Uzbekistan
Ilkhom Norkulov
First Deputy Minister
ilhom.norqulov@imv.uz

Implementing Agencies

Ministry of Economy and Finance
Ilkhom Norkulov
First Deputy Minister
ilhom.norqulov@imv.uz

FOR MORE INFORMATION CONTACT

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

APPROVAL

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

Approved By

Practice Manager/Manager:		
Country Director:	Tatiana A. Proskuryakova	06-Aug-2024