Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 18-Dec-2017 | Report No: PIDISDSA23336

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Uzbekistan	P165054	Energy Efficiency Facility for Industrial Enterprises, Phase 3	P118737
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Energy Efficiency Facility for Industrial Enterprises	EUROPE AND CENTRAL ASIA	11-Dec-2017	26-Jan-2018
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Energy & Extractives	Investment Project Financing	Ministry of Finance	Ministry of Economy, ASAKA Bank, Hamkorbank, Uzpromstroybank, Invest Finance Bank, Asia Alliance Bank, National Bank of Uzbekistan

Proposed Development Objective(s) Parent

The project objective is to improve energy efficiency in Industrial Enterprises (IEs) by designing and establishing a financing mechanism for energy saving investments.

Components

Component A - Development of Energy Efficiency Capacity
Component B - Credit Line to Participating Banks (PBs)

Financing (in US$, millions)

SUMMARY

Total Project Cost	332.50
Total Financing	332.50
Financing Gap	0.00

DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00
Total Government Contribution	0.50
Total Non-World Bank Group and Non-Client Government Financing	132.00
Private Capital and Commercial Financing	132.00
of which Private Capital	132.00

Environmental Assessment Category

Financial Intermediary Assessment (F)

Decision

Other Decision (as needed)

B. Introduction and Context

Country Context

Uzbekistan is a lower-middle-income, minerals-rich country with a population of 32.3 million as of July 2017, the largest in Central Asia, and the annual population growth of 1.7 percent in recent years. Over the past decade, Uzbekistan has maintained a high and stable economic growth rate and achieved gradual diversification by following a state-driven approach to development. Uzbekistan's economy has not only grown rapidly; it has also proven highly resilient to external shocks. According to official estimates, annual GDP growth averaged 7.2 percent over the 2000–16 period and contributed to a decline in the poverty rate from 27.5 percent in 2001 to 12.5 percent in 2016. This reduction in poverty appears to have been accompanied by equity gains, as the income of the bottom 40 percent of the income distribution is estimated to have grown at a slightly faster rate than that of the top 60 percent over the period 2008–13. Meanwhile, per capita GNI (current international $) measured in purchasing-power parity (PPP) terms[1] rose from US$2,050 in 2001 to US$6,640 in 2016. This is a notable

[1] See World Bank's World Development Indicators Central database, 09/14/2017.

achievement for the most populous country in Central Asia. The external current account and budget have been in small surplus and public debt is low.

Starting from 2017, the Government has adopted a new Strategy of Actions for 2017-2021 and started implementing important structural reforms. Since January 2017, a ban was lifted on the export of twelve types of products, mostly foodstuffs, e.g. meat, grains, sugar, vegetable oils, antiques, etc. On September 5, 2017, the Central Bank of Uzbekistan (CBU) allowed the official exchange rate to adjust from 4,210 UZS to 8,100 UZS per dollar, helping converge the official rate with the curb market rate, and establishing a framework to allow it to float thereafter. The authorities also announced that restrictions to exchange rate convertibility (including the surrender requirements by which firms were mandated to sale a portion of their export revenues to the CBU at the official exchange rate) were removed, widening the participation in the foreign exchange market by the private sector. This decision helps reduce extreme disparities between official and unofficial exchange rates that were witnessed in Uzbekistan in 2009-2016, and if accompanied by complementary market-oriented reforms, this will be an important step to reduce market distortions and encourage private investment in the economy. Budget policy has stayed prudent in recent years, and the consolidated state budget, including the Fund for reconstruction and development (a reserve fund), is projected to maintain a lower surplus of 0.6 percent of GDP in 2017 as compared to 1.2 percent of GDP in 2016. High economic growth is expected to continue in the near term: the economy grew by 7.8 percent in 2016 and is projected to growth further at around 6 percent per year on average in 2017-19[2] as transitional adjustments unravel, given uncertainties, and the fact that remaining rigidities in the economy may not allow for a sufficiently rapid adjustment to take advantage of a more competitive exchange rate.

Uzbekistan’s long-term development goal is to become an industrialized upper-middle income country through doubling the GDP, and increasing the industry-to-GDP ratio up-to 40 percent by 2030. The government’s approach toward achieving this goal is to continue the transition to a more market-oriented economy, mitigate the potential negative consequences of external shocks, ensure equitable distribution of growth between regions, and maintain infrastructure and social services at an adequate level. In the medium term, the government’s key development priorities are to (a) further strengthen the macroeconomic stability and maintaining high rates of economic growth, including the balance of the state budget and stability of the national currency; (b) increase the efficiency of infrastructure, especially of energy, transport, and irrigation; (c) enhance the competitiveness of targeted, strategic industries, such as agro-processing, petrochemicals, construction materials, pharmaceutics and textiles; (d) diversify the economy, particularly to reduce reliance on raw materials exports; and (e) improve access to and the quality and outcomes of education, health, and other social services so that the benefits of overall growth are shared equitably by the entire population.

Sectoral and Institutional Context

The energy sector continues to provide large implicit subsidies to the rest of the economy in Uzbekistan though the subsidies have been decreasing since 2010. According to the International Energy Agency

[2] See World Bank’s Macro-Poverty Outlook for Uzbekistan, Fall 2017; IMF’s World Economic Outlook, October 2017, p.66.

(IEA), energy subsidies decreased from US$10.3 billion in 2013 to US$6.5 billion in 2015, which was about 10 percent of the GDP. The depressed energy and fuel prices for domestic consumers deprive the energy sector of financial resources needed for rehabilitation, modernization, and expansion; undermine incentives for energy efficiency investments; and create pressures to boost gas exports. The government has been increasing domestic energy prices and tariffs in the past years and intends to pursue this policy in the coming years.

Natural gas is the primary fuel in the energy supply mix and a major source of commodity exports. It accounts for 86 percent of the total primary energy supply followed by oil, hydro, and coal. In the past decade, gas production increased by 13 percent, reaching about 60 billion m3 per year to meet the growing domestic demand, as well as expand gas exports, which have been growing, mostly driven by sales to China and Russian Federation. Gas exports generated around US$2 billion in 2016 - or about 20 percent of the total revenue stemming from export of goods.

Uzbekistan is the second-most energy-intensive economy in Europe and Central Asia (ECA) as measured by energy intensity per unit of GDP. While Uzbekistan's energy intensity declined by about 45 percent during 1998–2013, it still is 35 percent higher than that of Kazakhstan and 3 times that of Germany. The government has called for reducing the 2015 energy intensity level by at least 50 percent by 2030, and initiated concrete action programs to put in place policy interventions and mobilize investments toward achieving that goal. The industrial sector, especially large enterprises, represents the largest short-to-medium term energy-saving opportunities viable for commercial financing, thus potential for rapidly scaling up EE investments and achieving energy savings goals. The government's current EE action plan (Presidential Resolution No. PP-3012) explicitly identified three key sectors for government funding or facilitation for EE financing: (i)budget-funded institutions (heating), (ii) agriculture (pumping and irrigation), (iii) and energy-intensive industries, setting specific energy savings targets for each sector for the period 2017 to 2021.

C. Proposed Development Objective(s)

Original PDO

The project objective is to improve energy efficiency in Industrial Enterprises (IEs) by designing and establishing a financing mechanism for energy saving investments.

Current PDO

Improve energy efficiency in industrial enterprises by (i) designing and establishing a financing mechanism for energy saving investments, and (ii) scaling up energy efficiency lending of commercial banks

Key Results

1. Increased energy efficiency investments in industrial enterprises

2. Increased energy savings
3. Increased CO_2 emissions reduction

D. Project Description

The project has two components:

Component A. Development of Energy Efficiency Capacity. This component will support:

1) Development and implementation of an energy efficiency communication strategy and outreach programs. The focuses will be supporting information campaigns and outreach efforts to the beneficiary sectors and general public.

2) Enhancing the energy efficiency capacity of selected industries, banks, industry Banks and energy professionals. The focuses will be: (i) strengthening energy efficiency lending capacity of the participating banks and the banking sector; (ii) scaling up implementation of energy management system in large industrial enterprises; and (iii) developing energy efficiency support capacity for industrial small and medium enterprises.

3) Strengthening the capacity of the Ministry of Economy and the Project Coordination Unit for project management, coordination and monitoring and evaluation.

Component B. Credit Line to Participating Banks*.* Establishment and operation of a credit facility for the PBs for the provision of sub-loans to beneficiaries, enabling such beneficiaries to finance the costs related to the carrying out of industrial energy efficiency sub-projects.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Economy (MOE) is the responsible government agency for this project. The Project Coordination Unit (PCU) of the MOE will provide general implementation coordination and is responsible for executing Component A. Component B will be implemented by participating banks.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project involves a credit line to financial institutions (FIs) and, through this process of financial intermediation, will finance subprojects implemented by industrial enterprises in Uzbekistan with the objective to increase their energy efficiency. Most of the subprojects in previous phases - 43 in total for phase 2 - were related to the purchase and installation of new and more energy efficient equipment (replacement of boilers, purchase and installation of small-scale equipment to utilize low pressure flare gases). Most of the equipment is relatively high-end and came from Europe, United States and is compliant with best practices and standards. UZEEF-2 pipeline was consistently categorized by Participating Banks (PBs) in line with the Environmental and Social Management Framework (ESMF) and mostly consisted of low risk/ category C subprojects with only a few medium risk/ category B (with limited impacts). While the exact subprojects are not known (have not been selected), an indicative pipeline of potential subprojects exists for phase 3/ UZEEF-3. Examples include replacement of old equipment, installation of additional energy efficient equipment, expansion of existing production facilities. Subprojects are similar to the previous phases (as described above). Additionally, it is expected that phase 3 would attempt to move beyond larger industrial enterprises and support funding to SMEs for energy efficiency. While the SMEs are generally unburdened by the decades old production facilities common among large enterprises, those in relatively energy intensive subsectors, such as textile and food processing, nevertheless need to upgrade energy-consuming equipment to become more competitive. While E&S risks associated with SMEs may be comparative lower due to their size, their capacity to manage the risks is also expected to be lower.

G. Environmental and Social Safeguards Specialists on the Team

Ekaterina Grigoryeva, Environmental Safeguards Specialist
Odil Akbarov, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

This project is additional financing building on previous two phases that have been already implemented. While exact subprojects are not yet known for UZEEF-3, similarly to the previous phases and according to the indicative pipeline, most are related to replacement of old equipment, installation of additional energy efficient equipment, expansion of existing production facilities. Potential risks are limited and may include occupational and/or community health and safety during construction/ installation and operation phases. Other risks include noise, dust and disposal of nonhazardous wastes common to the installation of new equipment and possibly the need for waste management for the energy inefficient equipment being removed from service.

There may be some issues of combustion gas emissions associated with the installation of new boilers, kilns or other types of heat treating equipment. On occasion there may be issues of asbestos removal from older equipment that has been insulated. If high voltage equipment is involved (replacement of transformers, induction furnaces etc.) there may be some occupational health and safety aspects for workers in the presence of the older equipment (electro magnetic fields or possibly PCBS) or in testing the newly installed system. Such potential impacts as they are related mostly to small scale works and associated labor safety risks during installation of new equipment can be avoided or mitigated by implementing requirements specified in technical norms and standards for such type of activities and promoting good OHS practices.

To mitigate the E&S risks in this context, subprojects that would constitute high risk/ category will not be eligible. These will be defined through the List of Excluded Activities, which will form part of overall subproject eligibility criteria. To do so comprehensively, List of Excluded Activities will be expanded for phase 3 to (i) more clearly identify high risk situations that would make subprojects ineligible for financing and (ii) account for the new element of SME finance in phase 3 as SMEs would more often not have sufficient capacity to manage certain risks as compared to industrial enterprises.

Safeguard policies that might apply

Environmental Assessment OP/BP 4.01 – YES – Subprojects will involve physical components and infrastructure that may result in adverse E&S impacts. Therefore, subprojects will require E&S due diligence/ assessment, management of risks and impacts, and monitoring in line with GoU regulations and World Bank requirements. ESMF would cover step-by-step processes for assessing and managing E&S risks and impacts. This will include screening and monitoring process will ensure that all Uzbek laws concerning labor (such as equal opportunity and fairness in employment) will be complied with. Also, child and forced labor will be excluded through the List of Excluded Activities.

Natural Habitats OP/BP 4.04 – NO - Subprojects with impacts on natural habitats consistent with OP4.04 are not expected and, to additionally ascertain that these are not financed, excluded through the List of Excluded Activities.

Forests OP/BP 4.36 – NO - Subprojects with impacts on forests consistent with OP4.36 are not expected and, to additionally ascertain that these are not financed, excluded through the List of Excluded Activities.

Pest Management OP 4.09- NO - Project does not envisage use of pesticides.

Physical Cultural Resources OP/BP 4.11 – NO- Subprojects with impacts on cultural resources are not expected and, to additionally ascertain that these are not financed, excluded through the List of Excluded Activities.

Indigenous Peoples OP/BP 4.10 – NO - Groups meeting the World Bank definition of Indigenous Peoples are not found in Uzbekistan.

Involuntary Resettlement OP/BP 4.12 – NO - Any subprojects requiring land acquisition, are explicitly identified in the current project ESMF as ineligible for financing and will continue to be excluded going forward through the List of Excluded Activities.

Safety of Dams OP/BP 4.37 – NO - Construction of dams is not envisaged for this project.

Projects on International Waterways OP/BP 7.50 – NO - Subprojects will not involve impacts on international waterways.
Projects in Disputed Areas OP/BP 7.60 – NO - Subprojects will not be located in disputed areas.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Long term or indirect impacts are not envisioned.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
The project's objective is to increase energy efficiency, and hence it is contributing to minimizing adverse impacts of climate change. positive impacts on the environment and human health from decreased amount of fossil fuels burned resulting from enhanced energy efficiency, and from reduced air pollution at the local level.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Project Implementing Unit for the project is with the Ministry of Economy of Uzbekistan. UZEEF-2 has prepared and approved an ESMF that has been consistently used by Participating Banks (PBs) and overseen by PIU. The ESMF incorporates requirements and process for E&S risk management. Subprojects are screened for key E&S risks and categorized. Enterprises are required to ensure that they are in possession of all relevant and up-to-date permits from the Government of Uzbekistan and, where necessary, conduct an E&S risks and impacts assessment for proposed subprojects. In general, Uzbekistan has a relatively strong system for environmental assessment that covers most aspects identified as relevant risks for the project.

There are currently three PBs in the project - Asaka Bank, Hamkor Bank, and Uzpromstroybank. World Bank due diligence has confirmed that PBs have developed internal capacity for E&S risk management and record-keeping with regard to sub-projects financed by UZEEF. All three PBs have received capacity building / training on E&S risk management and have point persons responsible for collecting and analyzing E&S documentation and E&S due diligence and monitoring of subprojects, with Hamkor Bank having a full-time E&S expert on staff who covers its institutional ESMS prepared and implemented due to IFC's shareholding. All three PBs are GoU environmental requirements, keep due records of all subprojects supported under the project, including documentation of the State Ecological Expertise (SEE), filled-in safeguards questionnaires/ screening forms as per the ESMF, and associated supporting documents such as EIA. Further, the screening and monitoring process will ensure that all Uzbek laws concerning labor, and especially those concerning the heath and safety measures, will be complied with. It is expected that approximately three new PBs would join phase 3, and they will be trained in the E&S procedures, including sharing of lessons learned with the current PBs.

The current project ESMF has been updated based on feedback received from current PBs and public consultations to include (i) a more comprehensive List of Excluded Activities representing eligibility criteria for subprojects; (ii) more detailed instructions and tools for PBs with regard to E&S screening, due diligence and monitoring. It is expected that three new PBs might join UZEEF-3 and hence will be provided with E&S training once this is confirmed (planned for project launch).

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

This is a credit line to Participating Banks (PBs) and at this stage there is no a priori knowledge of the specific companies and EE projects that will seek financing. If a PB gets an application that is determined to be a medium risk subproject, at least one public consultation will be required. As part of the project launch workshop PB staff responsible for safeguards will be trained how to instruct enterprises to conduct a public consultation and prepare the associated documentation that would be required according to World Bank guidelines.

Public consultations on the ESMF have been conducted as part of the update process and outcomes included in the ESMF. Public consultations on the ESMF have been conducted as part of the update process and outcomes included in the ESMF. Consultation the updated ESMF took place on November 24, 2017, and summary included in the ESMF. ESMF was cleared by Practice Manager on December 1, and disclosed in-country on December 8, 2017 and on Bank's external website on December 1, 2017.

The GRM is detailed in the current ESMF and will continue to function. This information has been provided during public consultations. Enterprises are also required to develop and maintain a grievance mechanism. The GRM covers all project implementation related issues, including environmental and social safeguards. Information about the grievances will be shared with the World Bank on regular basis.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors

"In country" Disclosure

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

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Invest Finance Bank

Asia Alliance Bank

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