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Report No: PD000033

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT
FOR
A PROPOSED IBRD LOAN IN THE AMOUNT OF US$300 MILLION
A PROPOSED IDA CREDIT IN THE AMOUNT OF US$160 MILLION
A PROPOSED IDA SHORTER-MATURITY LOAN CREDIT IN THE AMOUNT OF US$240 MILLION AND
A PROPOSED IDA SCALE-UP WINDOW CREDIT IN THE AMOUNT OF US$100 MILLION

TO THE

REPUBLIC OF UZBEKISTAN

FOR A

First Inclusive and Resilient Market Economy Development Policy Operation

November 7, 2023

Macroeconomics, Trade and Investment Global Practice
Europe and Central Asia

Republic of Uzbekistan

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange rate effective as of September 30)

UZS 12,199.59= US$1.00

ABBREVIATIONS AND ACRONYMS

AIIB	Asian Infrastructure Investment Bank
AM	Accountability Mechanism
ASA	Advisory Services and Analytics
CAD	Current account deficit
CBU	Central Bank of Uzbekistan
CCDR	Country Climate and Development Report
CPF	Country Partnership Framework
DPO	Development Policy Operation
EIA	Environmental Impact Assessment
EU	European Union
FDI	Foreign Direct Investment
FRD	Fiscal Risk Department
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse gases
GRS	Grievance Redress Service
HBS	Household Budget Survey
HLO	Higher level objectives
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MEF	Ministry of Economy and Finance
MEPR	Ministry of Employment and Poverty Reduction
MFD	Maximizing Finance for Development
MoT	Ministry of Transport
MRV	Monitoring, Reporting, and Verification
NAP	National Adaptation Plan
NASP	National Agency for Social Protection under the President of the Republic of Uzbekistan
NDC	Nationally Determined Contribution
NEGU	Joint-Stock Company National Electric Grid of Uzbekistan
PCE	Private Capital Enabling
PEFA	Public Expenditure and Financial Accountability
PDO	Program Development Objective
PFM	Public Financial Management
PM	Particulate Matter
PPG	Public and publicly guaranteed
PPL	Public Procurement Law
PPP	Public-Private Partnerships
PPPDD	PPP Development Department
PSA	Public Service Agreements
UFRD	Uzbekistan Fund for Reconstruction and Development
UKS	Uzkimyosanoat
UN	United Nations
OTY	O'zbekiston temir yo'llari (Uzbekistan Railways)
SAMA	State Assets Management Agency
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SOBs	State-owned banks
SOEs	State-owned enterprises
SP	Social Protection
TSA	Treasury Single Account
WB	World Bank
WBG	World Bank Group

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REPUBLIC OF UZBEKISTAN

First 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
P180470	Yes	1st 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 green resilience.

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)? Yes

SUMMARY

Total Financing	**800.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	300.00
International Development Association (IDA)	500.00

IDA Credit	260.00
IDA Shorter Maturity Loan (SML)	240.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Scale-Up Window (SUW)	100.00	0.00	100.00	0.00	200.00
National Performance-Based Allocations (PBA)	160.00	0.00	140.00	0.00	300.00
Total	**260.00**	**0.00**	**240.00**	**0.00**	**500.00**

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Agriculture and Food; Energy & Extractives; Environment, Natural Resources & the Blue Economy; Social Protection & Jobs

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 – 43% cost recovery (September 2023)	Electricity – 100% cost recovery Natural gas – 100% cost recovery (end-2026)
Existence of a budgeted PSA	No PSA exists. (September 2023)	PSA presented in the public budget. (end-2026)
Number of companies in the chemical sector with a majority of private ownership	0 (2022)	2 (end-2026)
Land productivity index 2022=100 (agriculture value added in real terms in billion sums per '000 hectare of sown area)	100 (2022)	115 (15% increase compared to the baseline) (end-2026)
Number of newly registered foreign companies per year	1249 (2020-2022 average)	1374 (10% increase compared to the baseline) (end-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. (September 2023)	Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least 1 fiscal risk report covering PPP contingent liabilities. (end-2026)
Share of competitive (electronic) public procurement in total procurement	43.6% (2022)	60% (end-2026)
Share of the poorest quantile receiving at least one type of social protection support	79% (2022)	85% (end-2026)
Share of the labor force contributing to the new social insurance schemes	0% (2022)	15% (end-2026)
Percentage of GBV cases filed, including domestic and sexual violence, that receive a verdict protecting survivors.	5% (September 2023)	35% (end-2026)
GHG emissions intensity (kg CO2eq/US$ GDP)	2.55 kg/US$ (2017 data)	2.42 kg/US$ (end-2026)
Reduction in air pollutants from industrial sources relative to 2022 (% by weight)	0% (2022)	6% (end-2026)[1]
Share of state supported investments that conform with the Green Taxonomy	0% (2022)	30% (end-2026)

[1] Estimate from Ministry of Ecology for 2022 is 874,000 tons of air pollutants from non-transport stationery sources.

IBRD AND IDA PROGRAM DOCUMENT FOR A PROPOSED LOAN AND THREE CREDITS TO 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$300 million and three IDA Credits: a concessional IDA Credit of US$160 million; a concessional IDA Shorter-Maturity Loan (SML) Credit of US$240 million (US$100 million of which is made available through the IDA Scale-Up Window [SUW])[2] and a non-concessional IDA Credit of US$100 million through the IDA SUW. The proposed operation is the first 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 green resilience. Following five successive standalone operations, the shift to a programmatic DPO series reflects the maturation of the government policy and planning process. 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). Per IDA20 SUW-SML implementation arrangements, this program is aligned with the WBG Global Crises Response Framework (GCRF) Pillar 2: Protecting People and Preserving Jobs, GCRF Pillar 3: Strengthening Resilience, and GCRF Pillar 4: Strengthening Policies, Institutions and Investments for Rebuilding Better.[3] The Asian Infrastructure Investment Bank (AIIB) and KfW Development Bank (KfW) are also expected to provide parallel financing in support of this operation.

2. **Uzbekistan, a double-landlocked lower middle-income country of 36 million people, has become one of the world's top reformers over the past 7 years in a bid to rapidly transform the country.** Uzbekistan has a rapidly growing population of 36 million people, half of which live in rural areas. Since 2016, Uzbekistan has embarked on an ambitious program of economic and social reform. The World Bank's IDA resource allocation index, a measure of country policy and institutional quality, shows Uzbekistan has been the fourth strongest reformer over this period. Supported by successive DPOs, the authorities have liberalized the exchange rate, removed price controls, initiated state-owned enterprises (SOEs) reforms, raised fiscal transparency, ended forced and child labor, set up a modern social protection system, strengthened labor laws, and taken steps to liberalize the agriculture and energy sectors, amongst many other reforms. The DPO engagement is embedded in an ongoing policy dialogue, with each operation building on consistent reform priorities. This program builds on previous standalone operations, supporting market liberalization.[4]

3. **Despite significant progress, Uzbekistan is still in the initial stages of its transition to a market economy, and it also needs to transition to a greener and more inclusive economic model.** The new Uzbekistan 2030 Strategy renews the government commitment to the economic transition. It targets reducing the poverty rate by half from 2022 to 2026 and supporting Uzbekistan's transition to upper-middle-income country status by 2030. To reach these goals, state control over factor markets and SOEs needs to be loosened to improve the efficiency of resource allocation and increase private sector growth, including in backbone sectors. Integral to this outward economic orientation and market transition are greening of the economy[5] and the introduction of inclusion policies to increase the economic participation of women, youth, and the disabled. The government remains focused on addressing these challenges and maintains the view that Uzbekistan's longer-term prosperity depends on the ongoing market and inclusive green transition.

4. **The proposed operation advances important reforms to tackle these challenges by creating markets, improving fiscal risk management and public procurement, and supporting social inclusion and green resilience.** A suite of sectoral reforms, in energy, agriculture, railway and chemicals will establish arms-length regulation and the basis for fair

[2] The remaining US$140 million is made available as a Shorter-Maturity Loan from the IDA Performance-Based Allocation.
[3] GCRF has expired as a Bank Strategy document in June 2023, but it is still used for the purpose of accessing SUW-SMLs resources.
[4] Annex 7 provides an overview of the programmatic policy approach followed through the Bank's DPO engagements. See *Uzbekistan Second Systematic Country Diagnostic* (2022) for reform process and development pathways for Uzbekistan.
[5] In 2019, the government set green objectives for the economy, such as rational resource use, energy efficiency, and financing of green pilots.

competition and private sector entry. Measures to strengthen the government's Public Private Partnership (PPP) oversight will enable private participation in public services and maintain fiscal prudence. Measures to consolidate Uzbekistan's burgeoning social protection system under one umbrella will improve the coordination and effectiveness of the program, while new legislation on gender-based violence and expanded access to State-sponsored free legal representation will enable women and vulnerable groups (low income) to access justice.

5. **The proposed operation is aligned with the Country Climate and Development Report (CCDR) recommendations and supports Uzbekistan's actions to tackle climate change.** Uzbekistan is highly exposed to the impact of climate change, which is estimated to result in lowering GDP by 10 percent by 2050.[6] With Uzbekistan's arid climate, climate change will cause even more extreme variations in temperature and precipitation. Stress on both surface and ground water resources will increase, and water will become an increasingly scarce commodity.[7] As a sector that is highly reliant on irrigation, agriculture will come under the most severe climate pressure. As such, the CCDR recommends an urgent shift to climate-smart agriculture and land policy. This DPO contains several reforms that address this climate vulnerability, such as identifying adaptation investments as a green activity (Green Taxonomy). Also, agriculture reforms will remove the main obstacle and increase incentives for investments in climate-smart agriculture, by strengthening land tenure security and by reforming the system of crop placement.[8] Also, this operation supports the government's climate change mitigation objectives in line with the CCDR recommendations, by: (i) moving towards cost-reflective pricing for the largely fossil fuel energy sector; (ii) introducing a new pollution control system that will create stronger incentives to limit air, water, and land pollution, including greenhouse gas (GHG) pollutants; and (iii) through a National Green Taxonomy that will enable the growth of well-founded green financial markets and programs for investments in climate adaptation and mitigation.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

6. **Uzbekistan's economy performed strongly in 2022 despite new headwinds from Russia's invasion of Ukraine, global price pressures, and tightening global financial market conditions**. Following a strong post-pandemic recovery in 2021, real GDP growth moderated in 2022 (Table 1). The abovementioned global developments further tempered economic activity in Uzbekistan in 2022. Trade disruptions due to sanctions on Russia have adversely affected Uzbekistan's consumption and investment growth. Despite these negative impacts, GDP growth (5.7 percent) in 2022 was better than expectations, supported by strong remittances and exports. Remittance inflows, a public sector wage increase, and the expansion of social assistance contributed to an 11.4 percent rise in private consumption in real terms. On the supply side, strong services growth (7 percent), construction (6 percent), and industry (5.2 percent) offset weaker agricultural output growth (3.6 percent).

7. **With the recovery of trade and remittances, Uzbekistan maintained a strong external position in 2022**. Exports increased by 33 percent in 2022, led by textiles and garments, non-ferrous metals, fertilizers, and food. Services exports, mainly in transport and tourism, also grew rapidly, as the number of inward visitors from Russia tripled. Imports expanded by 27 percent as machinery imports and costs of food and energy rose. Net remittance as a share of GDP rose from 9.5 percent to 16.2 percent due to Ruble appreciation, greater migrant flows, and the continued availability of legitimate financial channels between Russia and Uzbekistan.[9] The Uzbek sum depreciated by 3.8 percent against the US dollars in

[6] Modeling results in the CCDR show more economic volatility and lower growth on average, with the economy projected to be 10 percent smaller by 2050 compared to the case without climate damages.

[7] The CCDR identifies several factors including climate change and upstream water diversion. Projections show that annual water shortage will increase to 7 (15) billion cubic meters in 2030 (2050). Crop and livestock production will decline, threatening food security.

[8] Included in the list of Urgent Actions of the CCDR is incentivizing Climate-Smart Agriculture by reforming the system of crop placement so that farmers have the incentive to choose what to cultivate on their land and promote land conservation and other climate-smart agriculture.

[9] Part of these financial inflows reflects the increased private money transfers of Russian citizens and companies relocating to Uzbekistan.

2022, and the real effective exchange rate appreciated slightly by 0.4 percent. The larger remittance inflows dramatically narrowed the current account deficit from 7 percent of GDP in 2021 to just 0.8 percent in 2022. International reserves increased slightly to US$ 35.8 billion, or 10.6 months of the next year's import cover.

Table 1: Uzbekistan: Key Macroeconomic and Fiscal Indicators

	2019	2020	2021	2022	2023	2024	2025	2026
National Income and Prices					(Est.)		(Projected)	
Real GDP growth (annual percent change)	6.0	2.0	7.4	5.7	5.5	5.5	5.5	5.5
Consumer price inflation (annual average)	15.2	11.2	10	12.3	9.9	10.7	9.3	7.1
External Accounts (US$ million, unless indicated)								
Current account balance (percent of GDP)	-5.6	-5.0	-7.0	-0.8	-4.3	-4.6	-4.7	-4.8
Exports of goods and services	17,026	14,536	16,442	21,925	27,707	33,941	40,218	45,856
of which Gold	4,918	5,804	4,110	4,106	5,682	5,627	5,627	5,627
Imports of goods and services	26,588	22,638	27,936	35,610	40,204	47,889	56,000	64,120
Foreign direct investment, net	-2,313	-1,717	-2,273	-2,494	-2,736	-3,020	-3,551	-4,574
Gross international reserves (US$ billion)	29.2	34.9	35.2	35.8	33.6	32.5	32.4	33.3
Gross international reserves (months of import cover)	15.5	15.0	11.8	10.6	8.4	7.0	6.1	5.4
Fiscal Accounts (% of GDP)								
Revenues*	26.8	25.5	25.9	30.9	29.7	29.3	29.6	29.9
Expenditures*	27.1	28.7	30.5	35.0	34.3	33.2	32.9	32.7
Budget Fiscal Balance	-0.3	-3.3	-4.6	-4.2	-4.6	-3.9	-3.3	-2.8
Policy-lending by the UFRD and Min. of Econ and Finance	3.5	1.1	1.5	-0.1	0.9	0.2	0.2	0.2
Overall fiscal balance (Including policy lending)	**-3.8**	**-4.4**	**-6.0**	**-4.1**	**-5.5**	**-4.1**	**-3.5**	**-3.0**
Total public debt (PPG)	28.5	37.4	36.6	34.9	35.1	34.8	33.9	33.0
Monetary Accounts (Annual percent change)								
Broad money growth	13.8	17.9	30.3	34.9	23.7	21.2	21.7	21.8
Credit to the economy growth	48.1	34.1	18.5	21.5	20.0	18.3	19.4	19.5
Memorandum Items								
Nominal GDP (US$ billon)	60.3	60.2	69.6	80.4	90.4	99.6	113.1	129.1

Note: ***** Beginning in 2022, off-budget accounts of ministries and agencies were included on-budget.

8. The government has made less progress on fiscal consolidation than planned in 2022. The government slowed the pace of fiscal consolidation to cushion the anticipated spillovers from the Russia's invasion of Ukraine, to maintain food and fuel security, contain inflation, and support vulnerable groups. Higher spending on targeted social assistance to counter the spike in international food prices, higher spending on salaries in education and health, and rising debt service costs resulted in a budget deficit of 4.1 percent of GDP in 2022. In the first half of 2023, unexpected additional spending on fuel imports during the winter energy crisis, the delayed increase in energy tariffs and earlier-than-budgeted increases in minimum wages, pensions, and allowances, together with lower revenues from the reduction in excise taxes on gasoline, the reduction in value-added tax rate from 15 percent to 12 percent, and lower revenue collections due to lower world prices on cotton yarn and copper caused the budget deficit to widen to 5.7 percent of GDP in the first half. The fiscal deficit in 2022 was financed almost entirely through external debt from development partners. Since 2020, the authorities have maintained a legally binding public and publicly guaranteed (PPG) annual external borrowing limit of about US$4.5 billion per year, and the government remained within the ceiling in 2022. Total PPG debt was 34.9 percent in 2022 with domestic debt only 1.8 percent of GDP. Gross external debt was 53.5 percent of GDP in 2022, of which PPG external debt was 33.1 percent of GDP, down from its peak of 36.5 percent in 2020.

9. Inflation increased in 2022, leading the Central Bank of Uzbekistan (CBU) to maintain tight monetary policy. Inflation stood at 9.7 percent in February 2022 but rose during 2022 with a sharp rise in prices of fuel, food, and imported raw materials. Annual average inflation for 2022 was 12.3 percent compared to 10.0 percent in 2021. Given that there are significant imports from Russia, ruble appreciation also contributed. Rising real wages and remittances raised demand for durable goods and real estate, adding to price pressure. The CBU acted decisively by raising its policy rate from 14 to 17 percent. As inflation eased, the CBU gradually reduced rates back to 14 percent by March 2023. Market deposit rates have been high in real terms (around 8.5 percent), which has supported an increase in household savings.

Table 2: Uzbekistan: Fiscal Operations (percent of GDP)

	2019	2020	2021	2022	2023 (Est.)	2024	2025 (Projected)	2026
Total Revenues, of which:	**26.8**	**25.5**	**25.9**	**30.9**	**29.7**	**29.3**	**29.6**	**29.9**
Tax revenues, of which	18.4	18.6	18.7	17.9	16.5	17.0	17.3	17.7
Income and profit taxes	6.0	7.5	8.0	7.3	7.0	7.3	7.6	7.9
Property taxes	0.9	0.7	0.9	1.0	1.0	1.1	1.1	1.2
Value-added taxes	6.3	5.1	5.2	5.8	4.9	5.1	5.2	5.5
Excise taxes	1.9	1.9	1.8	1.5	1.4	1.3	1.2	1.1
Mining Taxes	2.8	2.7	2.1	1.6	1.5	1.4	1.3	1.2
Taxes on international trade	0.4	0.6	0.6	0.6	0.6	0.7	0.7	0.8
Other revenues (tax and non-tax), adjustments*	3.8	3.0	3.3	8.9	9.4	8.6	8.6	8.6
Funds	4.6	3.8	3.9	4.0	3.8	3.7	3.7	3.6
Social security contributions	4.6	3.4	3.6	3.7	3.6	3.6	3.5	3.4
Other revenue	0.0	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Total expenditures, of which:	**27.1**	**28.7**	**30.5**	**35.0**	**34.3**	**33.2**	**32.9**	**32.7**
Social safety nets	5.9	6.7	6.5	7.2	6.9	6.7	6.6	6.6
Social and cultural expenditure	9.5	9.2	9.4	9.1	8.6	8.3	8.3	8.3
Public investment	6.6	4.4	6.4	4.0	4.6	3.8	3.8	3.8
Public administration	1.1	1.4	1.4	1.5	1.5	1.5	1.5	1.4
Economy	2.5	2.8	3.0	3.2	3.4	3.3	3.3	3.3
Interest expenditure	0.2	0.3	0.3	0.5	0.5	0.5	0.5	0.5
Externally Financed Expenditure	1.2	1.5	1.0	0.6	0.7	0.8	0.8	0.8
Other expenditure and adjustments*	0.0	2.5	2.5	8.9	8.0	8.3	8.0	7.9
Budget Balance	-0.3	-3.3	-4.6	-4.2	-4.6	-3.9	-3.3	-2.8
Policy lending	3.5	1.1	1.5	-0.1	0.9	0.2	0.2	0.2
Overall fiscal balance	**-3.8**	**-4.4**	**-6.0**	**-4.1**	**-5.5**	**-4.1**	**-3.5**	**-3.0**
Statistical discrepancy	0.1	-1.7	-1.4	0.0	0.0	0.0	0.0	0.0
primary balance	-3.7	-4.1	-5.7	-3.7	-5.0	-3.5	-3.0	-2.5
Financing, of which	3.9	2.6	4.6	3.5	5.5	4.1	3.5	3.0
Domestic	-2.2	-4.2	1.3	-0.1	2.5	1.0	0.4	0.2
External	6.1	6.8	3.3	3.6	3.0	3.1	3.1	2.8

Notes: ***** Beginning in 2022, off-budget accounts of ministries and agencies were included on-budget.

10. **Financial sector performance improved partly due to progress in privatizing state-owned banks (SOBs).** Banking sector capital buffers are above regulatory minimum and improved over 2022 as the banks strengthened their balance sheets. From a high of 6.2 percent in July 2021, non-performing loans decreased to 3.5 percent by the end of 2022. The capital adequacy ratio was 16.4 percent in June 2023, above the regulatory minimum of 13 percent and banks have ample liquidity. Rising domestic deposits supported improved liquidity, and the ratio of customer deposits to total loans improved from 41.3 percent to 47.8 percent over the year. Loans to businesses grew at pace with GDP, while loans to individuals increased by 45 percent and supported consumption. A high share of foreign currency loans and credit concentration, especially at the largest SOBs, are sources of credit risk. The government sold its controlling stake in two Uzbek SOBs in 2022. Despite this progress, the financial sector remains dominated by the 11 remaining SOBs, which account for 80 percent of assets.

11. **Social indicators that deteriorated over the pandemic period have mostly recovered.** The unemployment rate fell from 15 percent in 2020 to the pre-pandemic level of 8.8 percent in 2022. Poverty declined to 14 percent in 2022 from 17 percent in 2021 (using the national poverty line), supported by higher remittances, targeted social assistance, and household income growth. Real wages grew over the last 3 years and recorded around 9 percent increase in 2022.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Growth is expected to remain robust over the medium-term as domestic reforms support growth, but significant uncertainties remain**. Domestic demand is expected to remain relatively buoyant, and economic growth is projected at 5.5 percent in 2023. Growth is expected to slow in the second half of the year, reflecting a lower local value of remittances from Russia following the Russian ruble depreciation relative to the Uzbek sum. In future years, growth will be supported by liberalizing reforms including in the agriculture, energy, services and chemicals sectors that will attract private investment. Construction growth is expected to remain strong on that back of rapid urban growth. Investment growth is projected to remain strong. Recent efforts to tap new manufacturing export markets in European Union (EU) and Asia and the revival of Uzbekistan's tourism sector are expected to contribute to export gains. Uzbekistan's outlook is sensitive to external factors, such as the pace of capital flows, growth in major economic partners including Russia,[10] and flows of migrants to and from Russia.

Table 3: External Financing Requirements and Sources (percent of GDP)

	2021	2022	2023	2024	2025
			Est	Projected	
Gross External Financing Needs, of which	**14.2**	**6.9**	**9.8**	**10.8**	**10.3**
Current Account Deficit	7.0	0.8	4.3	4.6	4.7
Amortization payments, total	4.5	6.1	5.5	6.2	5.6
Financing Sources, of which	**14.2**	**6.9**	**9.8**	**10.8**	**10.3**
Net FDI and Portfolio flows	6.2	3.1	3.6	4.0	4.4
Public debt	2.9	3.2	4.1	4.3	2.6
Other flows	2.4	-2.3	0.5	2.4	3.2
Use of reserves (- increase)	0.7	1.6	1.4	0.0	0.0
Errors and omissions	2.0	1.3	0.0	0.0	0.0

13. **Inflation is projected to remain elevated at 9.9 percent by the end of 2023 and 10.7 percent in 2024 as energy tariffs increase, before gradually declining.** Persistent food price inflation and energy tariff increases are expected to slightly increase inflation in 2024. As commodity and food prices ease, inflation is projected to fall to single digits by 2025, with supportive monetary and fiscal policy.

14. **The current account deficit (CAD) is expected to deteriorate over the medium term**. Strong remittances resulted in a low CAD of 0.8 percent of GDP in 2022. High world prices of Uzbekistan's main export goods, including gold and fertilizer, will support export growth of about 26 percent in nominal terms in 2023, with imports growing by less. Financial transfers and migrant inflows are expected to decline in 2023. Lower remittances and services exports are expected to increase the CAD to 4.3 percent of GDP in 2023 and widening further to 4.8 percent by 2026 (Table 1) as import buoyancy associated with Uzbekistan's economic modernization outpaces export growth, and remittances return to normal levels.

15. **Fiscal consolidation is proceeding at a slower path than planned, with government financing needs elevated as a result in 2023.** The deficit is expected at 5.5 percent of GDP in 2023 before gradually falling to 3.0 percent by 2026. Lowering the deficit has proven challenging given rising spending pressures discussed in Section 2.1. Adequate, targeted social protection spending is needed, but some other spending may need to be reduced. In 2024 and 2025, budget expenditure is expected to reduce as energy subsidies are cut, together with lower public investment (due to rapidly expanding public-private partnerships in energy, other infrastructure, and education), lower policy lending and returning health spending to pre-pandemic levels. Broadening the tax base by eliminating exemptions and improving compliance would contribute to revenues. Fiscal consolidation could also benefit from faster privatization of SOEs' assets. The government issued Eurobonds of US$1 billion to finance the budget deficit (Table 4).

16. **Risks to debt sustainability are low**. [11] Public and publicly guaranteed debt (PPG) peaked at 37.4 percent of GDP in 2020 and then reduced to 34.9 percent of GDP in 2022. The outlook has not changed significantly compared to the previous debt sustainability analysis, and the World Bank projections indicate that both public debt-to-GDP ratio and total external debt-to-GDP are expected to decline modestly in the medium-term. The PPG debt is expected to increase 35.1 percent of

[10] Russia is Uzbekistan's second largest trading partner after China and a large foreign investor. Nearly half of Uzbekistan's sea-borne trade relies on Russian rail and road networks. One in eight Uzbek households have remittance income, most of which comes from Russia.

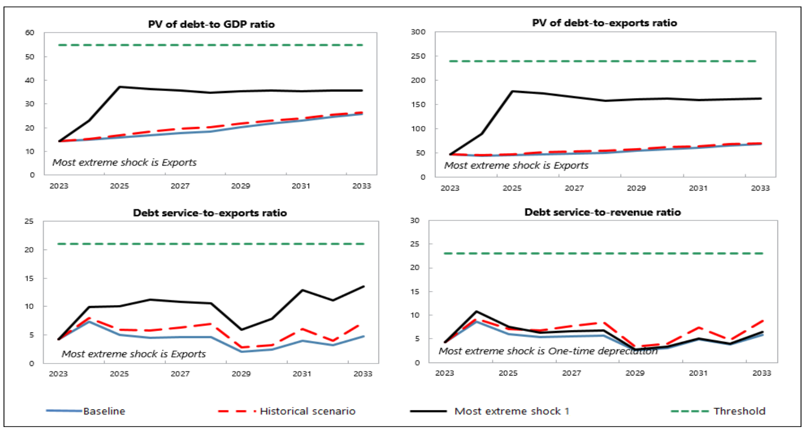
[11] The previous joint World Bank-IMF DSA conducted in May 2022 estimated PPG debt to peak at 38 percent of GDP in 2022 before falling to 33 percent of GDP by 2026. See IMF Article IV Uzbekistan Country Report 22/189, June 2022.

GDP in 2023, before falling to 33 percent of GDP in the medium-term, and the total external debt is expected to fall from 52.1 in 2023 and stabilize at 47 percent of GDP by 2026. Indicators of PPG external debt under alternative scenarios are presented on Figure 1. Most new public debt will continue to be raised externally. The most significant risk could arise from lower-than-expected external inflows, notably remittances and lower exports, and unforeseen shocks resulting in fiscal slippage. Mitigating these risks, are low risk of debt distress, low rollover risk (due to the relatively low volume of outstanding commercial debt), and high foreign exchange reserves (over ten months of imports as of October 2023). A new debt law[12], supported under the last DPO, has strengthened debt management practices by introducing a long-term limit of 60 percent of GDP for PPG debt.

Table 4: Budget Financing Needs in 2023, (US$ million)

Needs	**6,440**
1. 2023 Budget Deficit (estimate)	4,953
2. Amortization due on public debt	1,487
Sources	**6,440**
1. Debt disbursements	**5,236**
GOU Eurobonds (external and domestic)	**1,000**
Domestic T-bills	**1,385**
Development partner project disbursements	**500**
Development partner budget support financing, of which:	**2351**
World Bank DPO (this operation)	800
Other	1551
2. Privatization proceeds	**571**
3. Deposit withdrawals	**633**

Figure 1. Uzbekistan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2023-2033



Source: World Bank staff projections.

17. Uzbekistan's macroeconomic policy framework is adequate for 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 is expected to be elevated in 2023, the authorities are committed to bring it to their 3 percent target by 2026. Public debt is modest at just under 35 percent of GDP in 2022, 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.

18. The medium-term outlook remains vulnerable to further uncertainties and substantial external and domestic downside risks. Downside risks to Uzbekistan's economic outlook include those stemming from evolution of Russia's invasion of Ukraine and of a sudden reversal in war-related positive spillovers. Global growth could slow further, especially given the uncertain outlook in China. Higher than expected inflationary pressures from energy tariff reform could hamper real incomes and result in slower economic growth in the short term. Though necessary, the adoption of tight monetary and fiscal policies can also weigh on growth. It will be important to continue implementing structural reforms to stimulate investment and raise potential growth.

[12] The law "On the State Debt" (Law No. 836 dated 04/29/2023).

2.3. IMF RELATIONS

19. **The World Bank and International Monetary Fund (IMF) continue to collaborate closely in support of Uzbekistan's reforms.** The IMF has been providing extensive technical assistance (debt, public financial management, macroeconomic modeling, national accounts, statistics, and tax policy and administration) to the government and has been carrying out staff monitoring.

3. GOVERNMENT PROGRAM

20. **Uzbekistan's national development strategy sets out ambitious plans for reform of the economy, public service and the nation as a whole.** The new Uzbekistan 2030 Strategy reiterates the government's ambition to ensure sustainable growth and reach upper middle-income status by 2030. It focuses on improving the investment and business environment and accelerating reforms in the banking sector to create the conditions for high growth, including to raise the share of the private sector to 85 percent of the economy. The strategy covers five priority areas: (i) creating decent conditions to unlock potential of every person; (ii) ensuring prosperity of population through sustainable economic growth (iii) water conservation and environmental protection; (iv) ensuring the rule of law; and (v) peace and security. The authorities intend to liberalize leading industries and develop better services to facilitate investment. Under the rule of law pillar, the authorities intend to strengthen the protection of property rights, notably rights to land ownership, as a means to increase agricultural productivity. The strategy also supports the implementation of the green economy transition, by increasing the share of renewable energy and improving energy efficiency across the economy. The authorities have also set out targets to continue to strengthen the social protection system, and to support women's active participation in society.

21. **Uzbekistan has started prioritizing climate change and green transition in its policies and plans.** Uzbekistan signed the Paris Agreement in 2017, ratified in 2018, establishing its first nationally determined contribution (NDC). A revised NDC submitted in October 2021 sees an increase in ambition to reduce CO_2 emissions per unit of GDP by 35 percent below 2010 levels by 2030. 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.[13]

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

22. **Consistent with the government's reform priorities, the Program Development Objective (PDO) of the program 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 green resilience.** The proposed operation supports key government priorities, particularly to accelerate economic growth, pursue equity and human development, strengthen the rule of law, and support green transition. The first PDO pillar supports measures to improve the business environment, increase private sector participation, enhance efficiency and reduce state dominance in key sectors of agriculture, rail, chemicals, and energy. The second pillar supports measures to reduce fiscal risks from PPPs with a new institutional structure and fiscal risk assessment. The third pillar supports measures to improve social protection, including the vulnerable, and the overarching environmental sustainability and climate change[14] issues that are holding back Uzbekistan's economic potential. Government priorities supported include increasing efficiency, promoting green technology and climate change adaptation, and leveraging the country's natural capital. These measures reinforce the business environment and fiscal risk mitigation of the other pillars to enable growth, sustainability, and inclusion. Details of the link between Prior Actions and CCDR recommendations are given in Annex 6.

[13] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf

[14] A separate Climate Change Technical Note for the assessment of climate co-benefits of social, legal aid and agriculture reforms has been prepared.

23. **This operation marks a shift to a programmatic DPO series, which reflects and supports the strengthening of the government's medium-term policy and planning capacity.** Since 2018, the Bank has supported the government's reform program each year with five subsequent standalone DPOs. Each DPO has maintained a sustained and sequenced reform engagement in critical sectors in the transition to a market economy.[15] This new programmatic DPO series builds on strong policy dialogue and close collaboration with the authorities across the supported policy areas to develop a more programmatic approach to policy reforms (Annex 7). This approach will allow the Bank to better support the government's reform agenda with forward-looking, tailored analytical and advisory work, while maintaining flexibility in program implementation to reflect changing circumstances.

24. **This DPO is aligned with the goals of the Paris Agreement.** The DPO is consistent with Uzbekistan's updated NDC (2021) to the Paris Agreement, as well as with the 2022 Presidential Decree on Green Development and the findings of the CCDR. The Long-Term Strategy and National Adaptation Plan (NAP) are under development. Based on the findings of the CCDR, the energy subsidy reform is expected to lead to increases in energy efficiency and moderation of energy consumption, and growth in renewable energy. Natural gas consumption is expected to decline even with rapid economic growth. For the chemical sector, the entry of private investors will lead to technology modernization and increased efficiency for the fertilizer sector. The reforms in the agriculture sector are expected to address country-specific climate vulnerabilities and increase climate resilience by enabling farmers to increase investments in water-saving technologies and land improvements and promote the use of climate-resilient crop varieties. Liberalizing the agriculture market and abolishing the crop placement system will remove the largest obstacle to climate-smart agriculture and enable planting more profitable fruit trees, contributing to mitigation. Reforms from the third pillar support green growth by addressing several country-specific climate action priorities, contributing to mitigation, adaptation and strengthening resilience to climate change impacts. In sum, the DPO's path of reforms is consistent with national climate action plans and priorities, and with CCDR recommendations. Regarding mitigation, no prior action is likely to cause a significant increase in GHG emissions.[16] These findings are supported by CCDR recommendations for Uzbekistan to adopt a decarbonization strategy and to complete its energy sector reforms. This will make electricity markets more competitive and attract more renewable energy investments. Therefore, all prior actions of the DPO program are aligned with the mitigation goals of the Paris Agreement. Climate hazards are not likely to have an adverse effect on the prior actions' contribution to the PDO. Nevertheless, to reduce the climate risks to an acceptable level for PPP projects, the methodology for evaluating and managing fiscal risks in PPP projects (Prior Action 5) will incorporate more climate considerations, focusing on tools to assess possible fiscal impact from climate hazards that projects may be exposed to. The World Bank and Asian Development Bank (ADB) are providing support to the Ministry of Economy and Finance (MEF) in developing a methodology to operationalize the decree, which will include climate risk screening and contribute to the government efforts to align their decisions with the global climate agenda and priorities as well as the country's NDCs. All prior actions of the proposed DPO program are aligned with the adaptation and resilience goals of the Paris Agreement.[17]

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS [18]

Pillar 1: Creating Markets

25. **The first pillar advances the crucial market transition in key sectors.** Significant reforms in recent years have

[15] See Annex 7 for the prior actions of DPO5 (P179007) FY22.

[16] Preliminary assessment of the chemical sector reforms led to the need for further analysis on how GHG emissions will trend and whether there are long-term barriers to low-GHG-emissions development. Sector experts were consulted for the deeper analysis, and reference was made to CCDR findings. The analysis found that the chemicals sector reforms, combined with the energy sector reforms, are expected to reduce GHG emissions. In the short term, the objective of the reform is to increase efficiency of fertilizer production, which in turn may allow for lower GHG emissions per unit of production. The possibility of a significant increase in fertilizer production in the short term is not precluded but is considered unlikely. In the medium- to long-term, the reforms are also expected to incentivize low-carbon technologies for fertilizer production, thus further decreasing GHG emissions, as shown by modeling carried out under the ongoing regional analytical work (ECA Energy Futures).

[17] Detailed Paris Alignment assessment and contributions of PAs to mitigation and adaptation are available in Annex 5.

[18] See Annex 8 for analytical underpinnings for the DPO prior actions.

improved the business environment but the private sector remains constrained by the state's overwhelming control of most markets, either via regulatory control or the market dominance of SOEs. Establishing a new energy regulator will strengthen sectoral regulatory quality in the energy sector and, coupled with energy tariff reform, help to scale up private sector investment. Reforming the monopoly rail operator will be critical to liberalize the railway market to increase efficiency, competition, and investment. Transformative reform actions in the chemical sector will eliminate the conflicting mandates of the dominant SOE, thereby promoting competition and private sector participation. The removal of the crop placement system and strengthening of land tenure security in the agriculture sector are expected to promote greater agricultural productivity and crops diversification, increase farmers' security of tenure and reduce exposure to shocks. Finally, the amendments to the investment law planned for the second operation will introduce good practice to strengthen foreign and domestic investors' property rights and business environment.

Policy Area: Establishing an independent energy regulator and implementing energy tariff reform.

26. **Rationale: The absence of an energy sector regulator has contributed to below-cost pricing, underinvestment, and a lack of competition, posing major challenges for the country.** Improving the reliability of energy supply is a top priority for citizens, with one in five household reporting that they experience daily electricity outage, with even more serious disruptions common in winter.[19] The World Bank's Enterprise Survey indicates that energy supply is a top constraint for businesses in Uzbekistan, too. This poor service delivery results from state control, heavily subsidized prices, chronic underinvestment, and weak sectoral management. The average retail tariffs for natural gas and electricity cover only 40 percent and 60 percent of the cost, respectively. Though an appropriate electricity tariff-setting method is in place, the tariff adjustment process remains ad-hoc. A single SOE, JSC National Electric Grid of Uzbekistan (NEGU), is responsible for the operation of the transmission system, sale, import, and export of energy, creating potential conflicts of interest that may limit private sector access to infrastructure and curb fair competition. The government intends to reform the energy sector to attract private sector participation, by improving sector regulation and ensuring fair market pricing.

27. **Program: A new package of reforms will accelerate Uzbekistan's transition to a competitive electricity market in the medium to long term.** The authorities, supported by the World Bank, have taken landmark steps in the transition to a competitive energy sector. The government has established a new energy regulator, which will consolidate all energy sector regulatory functions including development of sector regulation, licensing, and tariff regulations. The authorities have also approved separation of the electricity purchasing and transmission system operational functions from NEGU with a new centralized power buyer, JSC Uzpowertrade, taking on these responsibilities of single/central buyer of electricity. The authorities have also issued a Cabinet of Ministers Resolution that increases electricity and natural gas tariffs for legal entities in 2023 as part of the plan for tariffs to reach cost recovery by 2026. The proposed reforms are well aligned with the CCDR's recommendations on completion of energy tariff reforms, including subsidy removal, setting up a new tariff mechanism and establishment of an independent regulator.

28. **The next operation will support the introduction of a new tariff methodology that moves to cost recovery for all users and includes a lifeline tariff, and the submission of a new electricity sector law to Parliament**. To further strengthen the energy sector legal and regulatory framework, the government will issue a Cabinet of Ministers Resolution to adopt a new tariff methodology towards full cost recovery of natural and electricity tariffs by end-2026. It will initiate systematic tariff adjustments in line with the new methodology to remove energy subsidies as part of the tariff cost recovery trajectory and introduce a lifeline tariff to provides a subsidy that is targeted to lower-consumption users only. The government will also submit a new Electricity Law to the Parliament that will improve the legal, regulatory, and institutional framework and promote private sector participation in the sector.

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*

[19] According to the World Bank's Listening to Citizens of Uzbekistan survey.

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 in 2023, through a Resolution of the Cabinet of Ministers No. 475 dated September 15, 2023.*

Indicative trigger*: 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.*

29. Expected results: The measures in this operation are expected to improve the sector's legal, regulatory and institutional framework, tariff cost recovery, and level of competition. The new independent regulator is expected to take over operation of regular electricity and gas tariff adjustments. As a result of systematic tariff adjustments, the cost coverage of retail tariffs of natural gas and electricity are expected to increase from their current levels of 43 percent and 61 percent to 60 percent and 75 percent by end-2023, respectively. This will increase further towards reaching full cost recovery by end-2026 (Results Indicator 1). These systematic tariff adjustments are expected to improve the viability of the sector, enhance efficient use of energy resources, scale up new investments in renewable energy generation and enhance competition, especially through private sector participation.

<u>Policy Area:</u> **Strengthening the railway sector's competitive and institutional environment.**

30. Rationale: Reform of the incumbent rail monopoly is a precondition for rail market liberalization. The railway sector is monopolized by the O'zbekiston temir yo'llari (OTY), state-owned Uzbekistan Railways. 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 competition in the rail sector, OTY is still losing freight volumes to competition from road freight. 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.

31. Program: The government has launched institutional reforms in the railway sector to modernize tariff setting and increase competition. The authorities have mandated the reorganization of OTY along the main business units (freight, passengers, and infrastructure), including separating the business units' financial accounts and have mandated the outsourcing of non-core activities. The government has also redefined the role of the public sector to provide a clearer regulatory and policy role by clarifying the responsibilities of the Ministry of Transport (MoT) and the economic regulators and setting a roadmap for greater private sector participation in the railway sector. The reforms will strengthen the competitive environment 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 Bank is providing technical support to the MoT on this program.

32. The next operation will support the submission of a new Railway Law to Parliament to strengthen the institutional framework in the railway sector. The new law will modify the legal framework on competition regulation, tariff reform, continue organizational restructuring of OTY and clarify the role of the state in the sector. Moreover, the government will implement Public Service Agreements (PSA) and Multi-Annual Infrastructure Contracts (MAIC). The signing and inclusion in the budget of a PSA will also change the way the public sector deals with the railway sector. PSAs and MAICs will establish a clear basis for the government to pay for passenger services that are not financially viable.

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.*

***Indicative trigger**: To make railway reform more effective, the Borrower submits (i) a new Railway Law to Parliament that modifies the legal framework on competition regulation, tariff reform, continues organizational structuring of OTY and clarifies the role of the state in the sector; and (ii) through its Ministry of Transport, approves the contractual framework for the first Public Service Agreement.*

33. **Expected results: These changes in the sector will enhance transparency, efficiency, and competition in the sector**. The PSA will be a part of the budgetary process that will enhance transparency (Results Indicator 2). Over time, these reform actions, which align with best practices, are expected to increase efficiency and competition, and help prepare the ground for private participation and investment into the sector.

<u>Policy Area:</u> Strengthening the chemical sector's competitive and institutional environment.

34. **Rationale: Uzbekistan's chemical sector is not performing to its full potential due to its organizational structure and competition constraints, which limit private sector participation.** Uzbekistan is well endowed with natural resources for chemical production.[20] The chemicals industry accounts for around 7.3 percent of manufacturing production, 4.5 percent of exports and 1.5 percent of GDP. Fertilizer production dominates Uzbekistan's chemicals sector. Though gradually improving, chemical plants remain inefficient, indebted, and small compared to international peers. For example, NavoiAzot, Uzbekistan's largest chemical plant, had a net debt/earnings ratio of 7.5 in December 2021, more than double the global average. These shortcomings can be attributed to the sector's current organizational model, which gives multiple competing mandates to the vertically integrated SOE, Uzkimyosanoat (UKS), which dominates the market, owns many plants and combines regulatory and commercial functions. Moreover, SOEs enjoy preferential access for key inputs, there is a lack of long-term contracts for gas and electricity, and numerous government-imposed price and quantity controls are in place. These features create conflicts of interest, distort market signals, and significantly discourage private investment. While the government has initiated the privatization process in the sector, it remains a challenge to attain favorable privatization outcomes without first addressing these organizational and competition constraints.

35. **Program: The government has established a framework for institutional reforms to create favorable market conditions in the chemicals sector.** The government has issued a Presidential Decree to transform the chemical sector's organizational structure by unbundling UKS. Technical assistance from the World Bank has played an important role on supporting the reforms. Accordingly, regulatory, policy, and SOE shareholding functions in core sector assets of UKS will be transferred to the responsible government bodies. These measures will allow UKS to focus on its core function of operating and managing existing assets prior to their privatization. The UKS shares of companies in the chemicals sector will be transferred to the State Assets Management Agency (SAMA) and the Uzbekistan Fund for Reconstruction and Development (UFRD). SAMA and UKS will do inventory of remaining UKS shares in companies and joint ventures and develop recommendations on transferring these shares from the UKS. UKS will relinquish the authority to perform policy and regulatory functions.[21] The function of development of new investment projects and their implementation will remain with the UKS until full privatization of assets in the sector. The government has also authorized the Ministry of Industry, Investment and Trade (MIIT) to sign an agreement for the divestment of FerganaAzot JSC, a large SOE chemical plant.

36. **As a subsequent step, the second-year operation supports the restructuring and privatization strategy of NavoiAzot.** NavoiAzot is the largest fertilizer plant in Uzbekistan with different business lines. To attract investors to the sector, the government will issue a Presidential Resolution to approve the restructuring (unbundling of assets) of NavoiAzot and develop a

[20] This includes nitrogen (from natural gas), potassium and phosphorous, and natural gas for energy and industrial feedstock.

[21] These include, inter alia: (i) forecasting fertilizer production and raw material (gas, electricity, water) allocations amongst chemical enterprises; (ii) implementing a unified technical policy for the chemical sector, including goals like diversifying production, improving mineral resource processing, ensuring technological safety, developing technical standards, and expanding exports; (iii) creating strategic development programs and legislation for the chemical sector's policy; and (iv) crafting action plans and roadmaps for phased chemical industry reforms.

privatization strategy for NavoiAzot. This prior action is Maximizing Finance for Development (MFD) and Private Capital Enabling (PCE). The divestment would generate an initial estimate of $300-400M in private capital inflows likely within three years of the DPO closing. The entry of private investors will also promote modernization and efficiency and shift the sector toward sustainable resource usage and low-carbon alternatives.

Prior Action #3: *To create favorable market conditions in the chemical sector, the Borrower has: (i) mandated the organizational structure unbundling of Uzkimyosanoat (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, Investment 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.*

Indicative trigger: *To attract private capital to the chemical sector, the Borrower approves the restructuring and privatization strategy of NavoiAzot, through the Presidential Resolution.*

37. Expected results: These reforms represent the initial stages of the liberalization of the chemical sector. The measures supported are expected to remove conflicting responsibilities, reduce market distortions, and encourage private sector participation in the sector. Two more companies with a majority of private ownership are expected to be in the sector at the end of 2026 (Results indicator 3). Additionally, the measures are expected to improve operational efficiency and financial sustainability in the chemicals sector while reducing state budget support by removing the need for state investments and subsidies for SOEs.

Policy area: Liberalizing the agriculture market and strengthening land tenure security.

38. Rationale: Agriculture reforms supported by previous DPOs have dismantled important elements of the state-led system, but critical constraints to private involvement persist. Reforms beginning in 2017 have removed all major export restrictions on horticulture products, liberalized cotton, wheat, and bread prices, transferred cotton production from state control to private textile companies, and ended the cotton state order system. However, the mandatory crop placement system in force until recently and prevailing land tenure insecurity remain major constraints which have discouraged farmers from investing in their land to raise productivity or to introduce climate-smart technologies.[22]

39. Program: The government has recently phased out the crop placement system.[23] Under the crop placement system, the government issued annual administrative acts that stipulated the target crop areas to be allocated to specific crops in each region. In 2019, the government stated its intent to eliminate the crop placement system in the "Uzbekistan Agriculture Sector Development Strategy for 2020-2030." Consistent with the strategy, the last administrative act on crop placement was issued in 2021, and no administrative acts stipulating target crop areas were issued during 2022-2023. The government published a Presidential Decree on "Measures on Effective Organization of State Administration of Agriculture and Food Sectors in the Framework of Administration Reform" on June 10, 2023, which formally liberalized the crop placement system for all crops. Moreover, the government has released a protocol to strengthen the implementation of removal of the crop placement system. The protocol is expected to support the implementation of the earlier Presidential Decree through a clarification and a reminder to local government officials that the crop placement system is no longer used and farmers can decide on crop allocation on the land under cultivation.

40. As a subsequent step, the next operation continues the liberalization of the agriculture sector and strengthening of land tenure security by introducing legislative changes in the Land Code. The government will issue a Presidential Resolution to remove from the Land Code the arbitrary requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts and strengthen land tenure security.

[22] The CCDR concluded that climate change would generate the highest productivity shock to agriculture and livestock.
[23] The World Bank team has provided technical support on removal crop placement systems and on strengthening land tenure security.

Prior Action #4: *To liberalize the agriculture sector and promote higher productivity, the Borrower has: (i) 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 the abolition 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 28 September, 2023.*

Indicative trigger: *To continue the liberalization of the agriculture sector and strengthen land tenure security, the Borrower removes from the Land Code the arbitrary requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts, through the Presidential Resolution.*

41. **Expected results: The measures supported by this operation are expected to promote greater diversity in crop production, addressing climate vulnerabilities and increasing farmers' resilience and reducing the risk of market and climate change-induced shocks.** First, in the absence of a crop placement system, farmers would be able to allocate land to produce the most profitable crops, as well as more profitable fruit trees. They would invest more in capital formation, which is crucial to boosting farm productivity. Second, over time, stronger land tenure security, without a requirement that farmers maintain minimum yields and maintain membership in the Farmers Council, is expected to significantly encourage investments in long-term agricultural productivity increases and adaptation to water and food security vulnerabilities caused by climate change, by enabling farmers to increase investments in water-saving technologies and land improvements and promote more climate-resilient crop varieties. These reforms are expected to result in a cumulative increase in land productivity in the sector by 15 percent by end 2026 compared to 2022 (Results Indicator 4).

<u>Policy area:</u> **Improving the business environment.**

42. **Trigger**: **Uzbekistan plans to upgrade its investment framework to strengthen, investor protection guarantees and investor services, particularly for foreign investors.** The Investment Law, adopted in December 2019, lacks a clear definition of foreign direct investment (FDI) and focuses on investment contracts between investors and Uzbekistan that provide tax preferences for investors. The Law covers public investments and has discrepancies with provisions of bilateral investment treaties signed by Uzbekistan. Importantly, it lacks internationally recognized minimum standards of investor protection and limits access to international arbitration by foreign investors. This is in addition to the ambiguity about the roles and mandates of different state bodies with respect to FDI, which hampers the effective provision of services to investors seeking to invest or expand their operations in Uzbekistan. The second-year operation will support the development of a new and improved Investment Law (see Annex 1 for the indicative trigger). By addressing these abovementioned issues, the new Law will streamline Uzbekistan's foreign investment framework and make the country a more attractive destination for FDI.

<u>Pillar 2: Improving Fiscal Risk Management and Public Procurement</u>

43. **The second pillar advances important reforms to strengthen fiscal risk management and the public procurement system.** Reforms supported strengthen overall fiscal management starting with stronger fiscal risk management systems for PPPs – a new and rapidly growing portfolio and a potentially large source of fiscal risks. This will be followed by an overall fiscal risk framework in the second operation. This pillar also supports public procurement reforms, with amendments to the Public Procurement Law submitted to Parliament planned for the second operation.

<u>Policy area:</u> **Strengthening fiscal risk management.**

44. **Rationale: Fiscal risks are quite large and expanding rapidly in Uzbekistan.** Fiscal risks can have a significant impact on public finances. World Bank estimates show that fiscal exposure from various sources[24] grew from about 47 percent of GDP in 2017 to 60 percent of GDP in 2021 in Uzbekistan.[25] Notably, Uzbekistan's PPP portfolio is expanding rapidly and, while being an important means of leveraging the private sector, also constitutes a growing fiscal risk. With a

[24] Explicit guarantees on SOE debt, unguaranteed non-equity liabilities, guaranteed bank deposits, PPPs, and non-deposit bank liabilities.
[25] Uzbekistan Public Expenditure Review 2022, World Bank.

large portfolio of externally financed agreements it has become especially important to monitor contingent liabilities; particularly relevant for the energy sector which constitutes about 60 percent of the entire PPP portfolio by value. Uzbekistan's PPP portfolio has grown rapidly from 20 projects in 2020 to 643 with a value of US$15.2 billion by August 2023, equating to 14 percent of GDP. Well-structured PPPs have the potential to unlock efficiency gains but inadequate fiscal planning for PPP obligations under different feasible future demand scenarios can create substantial fiscal risks. The evaluation of affordability and fiscal implications should be conducted systematically and with a comprehensive view of the project portfolio. The existing institutional structure is centered around the PPP Development Department (PPPDD) in the MEF. PPPDD performs policy making functions, provides project structuring and promotion support to the public partners. It also evaluates PPP projects with a value over one million US dollars during the approval stage and maintains a register of PPPs on their website. It is not presently clear if PPPDD is also responsible for coordinating fiscal risk analysis for PPPs. Such a mandate would raise concerns about a potential conflict of interest, as the PPPDD's primarily role is to actively promote and structure PPPs. Evaluating and monitoring fiscal risks requires an objective perspective that could be compromised by their promotional role. To ensure a good practice, the functions of PPP promotion and fiscal risk due diligence should be separated.

45. Program: The authorities have established a framework for evaluating and managing fiscal risks in PPP projects as part of the regulatory and institutional framework for developing and managing PPPs. Facilitated by technical assistance from the World Bank, the government has approved a Resolution of the Cabinet of Ministers for evaluating, managing and monitoring fiscal commitments and contingent liabilities generated by PPPs. The decree establishes an institutional and decision-making framework for analyzing and managing fiscal risks in PPPs.[26] All existing and new projects must undergo fiscal risk analysis. The MEF has also expanded the functions of the MEF's Fiscal Risk department (FRD) to evaluate and monitor fiscal risk analyses prepared by public partners. Furthermore, the FRD will maintain a register of all fiscal commitments and estimated risks from the portfolio of PPPs and undertake periodic reporting.

46. The second-year operation will support the publication of a report on all fiscal risks, such as those arising from SOEs, PPP projects, and other sources of contingent liabilities. To strengthen the management of fiscal risk, the second-year operation will support the adoption of a framework to monitor, evaluate and report all major fiscal risks and contingent liabilities, including those from the debt of SOEs, unguaranteed non-equity liabilities of non-financial SOEs, guaranteed bank deposits (net of deposit insurance fund assets), PPPs, and non-deposit bank liabilities, including non-deposit liabilities of SOBs. Such a framework will include a methodology, institutional roles and responsibilities, operationalization of the evaluation techniques and periodic publication. Moreover, the government will begin publication of a report on all major fiscal risks and contingent liabilities. This report will be prepared and published annually on the MEF website.

Prior Action #5: *To strengthen fiscal risk management, the Borrower has mandated the Fiscal Risk Department within the 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.*

Indicative trigger: *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 related to PPP projects on a website.*

47. Expected results: These reforms will strengthen the overall assessment and management of fiscal risks. Fiscal risk management will be improved progressively through established procedures with a clear institutional framework and supported by comprehensive guidelines. By incorporating fiscal risk analysis into the PPP framework, the MEF can

[26] The framework sets out how different stakeholders are to collaborate, key tasks related to fiscal risk assessment and management at the project and portfolio levels, and the form of the resulting reporting. It also sets out the decision-making, management, and monitoring of PPP projects.

effectively evaluate the long-term fiscal implications of PPPs, enabling informed decisions in project selection and prioritization. The results indicator will be the implementation of a fiscal risk assessment framework and public reports based on it (Results Indicator 6). This prior action is MFD enabling.

Policy Area: Improving public procurement system.

48. **Trigger: The public procurement system, despite progress in recent years, still requires improvements that can offer better value for money and address the global emerging priorities.** The Public Procurement Law (PPL) adopted in 2018, revised 2021, was an important step in enhancing the integrity, transparency, and openness of the public procurement system. However, key issues remain to be addressed, such as: (i) the fragmented procurement approach for common use items has failed to ensure economy and efficiency; (ii) the law does not incorporate a full set of procurement methods, limiting the procuring entities' ability to adopt the fit-for-purpose procurement method based on value, risk level and complexity of procurement; (iii) an e-complaints handling module has been developed but the PPL lacks clarity in defining the responsibility of key players in the process; (iv) the law lacks provisions to respond to pandemics and natural disasters; and (v) it does not include provisions to consider environmental and social impacts in public procurement. The government is adopting for the first time a 5-year Public Procurement Strategy (2023-2027), supported by the Bank. For the next operation, the PPL will be amended to incorporate the appropriate provisions to address the above-mentioned issues (see Annex 1 for the indicative trigger). It is expected that the amended PPL will enable framework agreements based on consolidation of demands for common use items, an enhanced list of procurement methods for fit-for-purpose procurement approach, improved transparency through better handling of complaints, and a resilience, and sustainability.

Pillar 3: Supporting Social Inclusion and Green Resilience

49. **The third pillar supports reforms to strengthen social protection, support vulnerable groups, and increase green resilience.** The creation of the National Agency for Social Protection (NASP) is expected to improve the integration, coverage, performance, and quality of social protection services. The enactment of legislation that criminalizes domestic violence will help protect women from violence and eventually reduce the prevalence of gender-based violence. The enactment of free legal aid will help access to justice for vulnerable groups. The legislative acts that set more ambitious climate mitigation targets and a series of timebound programs and establish an institutional structure for climate change will help in reducing GHGs and local air pollutants, while promoting inclusion.[27] The national green taxonomy is expected to become a framework for prioritizing policy incentives and funding, including private financing, for green investments.

Policy Area: Consolidating and strengthening Uzbekistan's social protection system.

50. **Rationale: Uzbekistan has made significant progress in developing a comprehensive social protection (SP) system over the past five years.** Yet its effectiveness is constrained by operational fragmentation and a lack of policy coordination. SP in Uzbekistan includes social assistance, contributory pensions, labor market programs, and social care services. Reforms since 2017 have strengthened the system, more clearly defining targeting mechanisms and improving delivery. Two new information systems have been introduced held by the MEF and the Ministry of Employment and Poverty Reduction (MEPR), respectively. But policy and operational coordination across government has yet to be achieved, with SP policy disbursed over fifteen government agencies. No government agency is responsible for overseeing spending across all SP programs, and official data for SP spending is not centrally published. The National Strategy for Social Protection, supported under the previous DPO, marked a first step toward unifying SP measures and policies. This fragmentation results in fiscal inefficiencies and gaps in SP coverage and targeting inefficiency.[28] Moreover, there is a need

[27] The CCDR reports annual costs to health from ambient PM2.5 pollution of 6.5 percent of GDP, disproportionately borne by vulnerable groups.

[28] The coverage of the main targeted social assistance program - low-income family allowances – has grown from around 550,000 families in 2019 to 2.2 million families in 2023. In Uzbekistan 64 percent of population, and 79 percent of the poorest quintile are receiving some form of SP. Out of them 47

for a social insurance law to provide social insurance coverage for short-term risks like unemployment, sickness, accident, etc. These benefits are currently offered on an ad-hoc basis under social assistance programs.

51. **Program: The authorities have established a new NASP under the Presidential Administration to oversee all SP policies and implementation.** NASP will be the custodian of the National Strategy of Social Protection, setting SP policy, and monitoring and overseeing its implementation. NASP will control the Social Inspectorate, the State Social Protection Fund, and regional departments in Karakalpakstan and Tashkent City. NASP is expected to optimize and reform social assistance programs, develop, and monitor implementation standards, develop a professional cadre of social workers, and ensure system transparency through digitalization. The current NASP roadmap outlines the gradual acquisition of existing responsibilities over the next two years. NASP is also tasked with developing the social insurance law and improving employment for people with disabilities.

52. **As a subsequent step, the next operation will introduce a Social Insurance Law to establish a contributory system of unemployment, sickness, accident, and disability-in-work benefits**. Old age and disability are currently the only social insurance schemes in Uzbekistan mandated for the formal sector. The proposed law introduces social insurance schemes for short-term risks like unemployment, maternity, sickness, and disability-in-work benefits. Some of these short-term benefits exist but are provided on an ad-hoc basis and through general revenue financed social assistance programs. Introducing a contributory system for short-term risks will limit fiscal expenditures, incentivize workers to contribute to social security, and improve adequacy of benefits against these risks. The robust institutional arrangement provided by NASP will enable the successful implementation of social insurance, including contribution collection, records management, benefit calculation, and payment. The law envisions mandating short term social insurance schemes for those in the formal sector but a gradual expansion to cover the informal sector is also envisioned.

***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.*

***Indicative trigger:** 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.*

53. **Expected results: The new agency is expected to improve the effectiveness of SP policy, particularly by reducing inefficiencies and overlaps between instruments.** The social insurance law is expected to protect working-age individuals in the formal sector against short-term risks across the lifecycle in a fiscally sustainable manner and eventually blend social assistance and social insurance programs to ensure universal coverage. The measures supported are expected to improve the integration, coverage performance, and quality of SP services. The resulting institutional and legal improvement in the SP 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 and to increase the share of the labor force contributing to the new social insurance scheme from 0 percent in 2022 to 15 percent in 2026 (Results Indicators 8 and 9).

Policy Area: Strengthening protection of women against violence.

54. **Rationale: Gender-based violence (GBV) is a global problem affecting women across the globe.** GBV directly affects women's health and labor force participation in terms of job loss and lost productivity, and the World Bank has estimated GBV costs countries up to 3.7 percent of GDP. The WHO estimates that more than a quarter of ever-partnered women aged 15 to 49 worldwide have experienced at least one incident of intimate partner violence. The prevalence of GBV in Uzbekistan is unknown due to a lack of administrative and nationally representative survey data. And yet relatively high rates in neighboring countries, analysis of available administrative data, and qualitative evidence indicate it is a

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percent of the poorest quintile is receiving any non-contributory social assistance benefit, and the coverage of the poorest quintile with the low-income family allowances was under 40 percent in 2022 (World Bank team calculations based on Household Budget Survey (HBS) 2022 data).

serious problem.[29] Societal reluctance to confront domestic violence deepens the problem. Domestic violence often remains a private issue, and reconciliation at the victim's expense is frequent. Survivors struggle to gather medical evidence, access legal help, and get resources like shelters. Insufficient training exists for professionals working with GBV survivors. Recently, Uzbekistan has made important progress in passing laws and signing conventions that protect women and girls from GBV. This includes the 2019 Law on Protection of Women from Harassment and Abuse, which addresses some forms of violence against women. Prior DPOs supported the approval of a framework that enables law enforcement officials to issue and enforce protection orders safeguarding survivors of GBV from individuals suspected of committing acts of violence. However, as of October 1, 2022, there was no legislation on sexual harassment in employment, no criminal penalties, or civil remedies for sexual harassment in employment, and no legislation explicitly addressing domestic violence. Remaining legislative gaps provided opportunities for perpetrators to escape criminal responsibility or punishment and deny survivors of GBV access to justice. Perpetrators of acts of sexual violence against minors may escape prosecution by denying knowledge of the victim's age. As a result, law enforcement authorities in Uzbekistan rarely prosecute acts of domestic violence, sexual harassment, and sexual violence against children. Closing remaining legislative gaps is thus a key step in Uzbekistan's efforts to strengthen protection for women and girls against GBV.

55. **Program: The government has taken an important step by enacting strong legislation to protect women from violence.** The parliament passed a law, which has been signed by the President,[30] that criminalizes domestic violence, increases the punishments for sexualized crimes, criminalizes sexual intercourse with persons under the age of 16, makes economic and psychological violence and sexual harassment administrative offenses, and extends protection orders for GBV survivors to up to one year, amongst other changes to strengthen child protection. The law strengthens the routes by which survivors can escape from abusive situations and secure justice.

56. **As a subsequent step, the next operation strengthens the outcomes further by amending the laws governing reconciliation in cases of domestic violence.** International legal standards strongly advise against reconciliation (often referred to as mediation) as a means of resolving cases of domestic violence due to the power disparities that exist between the perpetrator and the survivor. The proposed trigger will support a legislative amendment that removes domestic violences cases from the list of criminal cases that can be resolved through reconciliation. This is expected to bring Uzbekistan's legislation 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).

Prior Action #7: *To strengthen the protection of women against violence, including intimate partner violence (physical, sexual, economic, and psychological) and 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.* [31]

Indicative trigger: *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.*

57. **Expected results: These reforms are expected to provide more effective access to justice for survivors of GBV**

[29] An analysis by the International Partnership for Human Rights of 2021 administrative data showed that over 35,000 cases of violence against women were reported. However, many cases go unreported due to fear of retaliation or societal stigma.

[30] This law amends 15 legal codes and laws: Law on Prosecutor's Office; Law on Self-Governing Bodies of Citizens; Criminal Code; Criminal-Procedural Code; Code on Administrative Liability; Family Code; Law on Guarantees of a Child; Law on Prevention of Neglect and Delinquency Among Minors; Law on Guardianship; Law on Crime Prevention; Law on Protecting Children from Information Harmful to their Health; Law on Protection of Women from Harassment and Abuse; Law on Guarantees of Equal Rights and Opportunities for Women and Men; Law on State Duty; and the Labor Code.

[31] A criminal justice sector reform risk assessment was completed. The primary risk highlighted relates to 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.

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 (Results Indicator 10).[32]

Policy Area: Expanding access to State-sponsored free legal aid.

58. **Rationale: Lack of access to free legal aid is an obstacle for GBV survivors and other vulnerable groups to access justice.** While legal frameworks in Uzbekistan grant rights equally to everybody, vulnerable groups are at a disadvantage when it comes to claiming their rights in court. Under the World Justice Project's Rule of Law Index, Uzbekistan scores 0.47/1.0 for accessibility and affordability of civil justice, which results in a ranking of 14th out of 14 countries regionally, 105th out of 140 globally, and 21st out of 38 countries of the same income group.[33] The weak performance of the legal aid system contributes to these low scores. When the other party is an abusive partner, the government, or an economically stronger opponent who can afford to pay for a well experienced lawyer, equality of arms and the establishment of a level playing field between the parties may require access of vulnerable groups to the services of a State-sponsored free legal aid system. The Uzbek legal aid system only provided free legal representation in court for people accused of severe crimes punishable by imprisonment. Victims of crimes and indigent parties in administrative and civil cases were not eligible for State-sponsored legal representation.[34] Overwhelmingly, studies conclude that the benefits of legal aid outweigh the costs for the individual involved, the community, the justice sector, as well as the economy and the society.

59. **Program: The government has taken an important step by enacting legislation to extend access to State-sponsored free legal representation to vulnerable groups.** Uzbekistan enacted a law on June 16th, 2023 to extend the eligibility for State-sponsored free legal representation in court, until then limited to people accused of severe crimes. The new beneficiaries include low-income persons if they are plaintiffs or defendants in civil cases or applicants in administrative cases, which strengthens the position of indigent GBV survivors in court proceedings. The law also expands eligibility to: (i) persons who have committed an administrative offense for which an administrative penalty is provided in the form of administrative arrest; (ii) individuals in psychiatric care facilities; and (iii) and individuals claiming a violation of the Law "On Guarantees of Equal Rights and Opportunities for Women and Men." The Ministry of Justice has established a registry through which the provision of free legal aid by a State-sponsored lawyer will be delivered.

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.*

60. **Expected results:** These reforms are expected to provide more effective access to justice and empower poor people in particular to claim their rights in court. As described above, this is expected to support increased access to justice of domestic violence survivors.

Policy area: Advancing climate change goals and transition to a green economy.

61. **Rationale: Uzbekistan is one of the world's most carbon-intensive countries and was ranked 16th globally for carbon emissions per unit of GDP in 2021.** Intensive fossil fuel use is also a major cause of local air pollution, which accounts for 13-20 percent of non-accidental mortality. In 2019, the government laid out its 2030 green pathway in its National Strategy for a Transition to a Green Economy and updated its NDC. What is needed to achieve these goals within

32 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, 1404 verdicts have been issued (5 percent).

33 The scores for 2022 are available at https://worldjusticeproject.org/rule-of-law-index/country/2022/Uzbekistan/Civil%20Justice/.

34 The lack of free legal aid comes with social and economic costs, including monetary losses but also socioeconomic costs that are real but harder to quantify. These may include pain, suffering, trauma, fear, reduced quality of life, damaged reputation, lost dignity, and reduced life chances. Children in families unable to assert their rights may be harmed by avoidable family breakdown, homelessness, and disrupted schooling, which may limit their ability to become productive and well-integrated members of society and may increase the likelihood of them requiring state support or intervention.

the given timeframe goes beyond strategic directions and requires defined policies and targets for each sector that are centrally coordinated.

62. Program: The Green Economy measures, adopted in December 2022 under Presidential Decree No. 436, specified objectives and responsibilities at the sector level for achieving the ambitious economy-wide target of 35 percent reduction in GHG on a GDP basis. The decree embedded GHG and climate resilience goals into sector workplans with targets, policies, and measures. These included an increase in the share of renewable energy capacity to 30 percent, reduction in energy intensity by GDP by 30 percent, increased urban greening by 30 percent, water-saving technologies undertaken for 1 million hectares of land in use, and increased disposal and processing of sanitary solid waste by 65 percent. The decree also included twelve measures to integrate climate change adaptation into sector development planning, sector regulatory framework, and local capacity strengthening programs.

***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.*

63. Expected results: Among other positive outcomes, this legislative act marks important steps towards reducing GHG and advancing other environmental actions. On a GDP basis, GHG emissions by 2030 are expected to reduce by 35 percent relative to 2010. Accountability for meeting the emissions goal across various sectors will utilize the coordination mechanisms under the decree, with performance reviews supported by new Monitoring, Reporting, and Verification (MRV) requirements being established in the next year.

Policy area: Strengthening climate and environmental institutions and improving air quality.

64. Rationale: The institutional arrangements and overall capacity on environmental and climate issues have not been adequate to support the ambitions of a green and climate resilient economy. The government has lacked a clear lead agency for climate and environmental policy. A state committee previously worked on a National Climate Change Strategy but fragmented responsibilities and coordinating cross-sectoral climate policies across ministries proved a challenge. The 2019 "Concept of Environmental Protection till 2030" reinforces climate mitigation policy by establishing air quality protection as a national goal. It identified the main polluting sectors as industry and transport, introduced PM2.5 and PM10 pollution monitoring, and set the goal of reducing air emissions by 10 percent by 2030. But implementation measures have not been put in place, and particulate matter - a pollutant associated with carbon-intensive energy use - is not yet subject to pollution charges. Overall enforcement is also hampered by limited and timely air quality information.

65. Program: The institutional framework for cross-sectoral climate and environmental action has been strengthened, as has the system of air pollution control. The government has established a new Ministry of Ecology, Environmental Protection, and Climate Change, receiving clear and strong regulatory and enforcement powers, and the mandate to lead on climate change policy. A new air pollution control framework has been introduced that increases incentives for polluters to install abatement equipment. This involves the revision of the pollution charges system, a US$100 million credit line for equipment installation, and a centralized digital pollution monitoring system covering significant emitters to enforce the new framework.[35] Industrial emissions coming under this pollution framework includes greenhouse gases nitrous oxide and methane, and other air pollutants such as volatile organic carbons, sulfur dioxide, and total suspended particulates.

66. The next operation will further strengthen air pollution and emissions control. An action plan will be adopted by the Cabinet of Ministers, which will include setting an air quality standard for PM2.5, applying pollution charges to PM10 and PM2.5, and targeting transport emissions with economic mechanisms. The Environmental Impact Assessment (EIA) regulation will be revised to bring elements of the environmental assessment process to international standards, including

[35] Under this framework, Nitrous Oxide, a GHG is a regulated pollutant. Other GHGs and particulate matter will be added for the next operation.

setting of GHG targets.[36]

> ***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) 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, respectively through Presidential Resolution No. 171 and Presidential Decree No. 81 dated May 31, 2023.*
>
> ***Indicative trigger:*** *Further strengthen the regulatory framework, the Borrower upgrades EIA regulations, adopts new air quality standards, and targets particulate matter and transport emissions.*

67. Expected Results: The new air pollution control framework is expected to increase the allocational efficiency of abatement investments and a simultaneous reduction in air emissions, requiring Category I and II emitters to install pollution abatement systems by 2024 and 2025 respectively. Pollution monitoring coverage is expected to increase from the current 43 percent to 60 percent of industrial enterprises (Presidential decree #171). EIA reforms planned for the next phase of the operation will upgrade environmental risk and impact assessment and management requirements by drawing on international experiences.

Policy area: Greening financial flows

68. Rationale: To support sector targets in decree 436 (Prior Action 9), a framework is needed to direct additional financing to green projects and to inform the prioritization of government and private investments. The financing needs are substantial. The CCDR analysis found that as of 2022 up to 42 percent of bank lending in Uzbekistan was financing emissions-intensive activities, mainly through exposure to the fossil fuel sector, utilities, and other energy-intensive sectors. The agriculture sector, which has lower emissions intensity and where adaptation investments are needed, appears to be starved for credit. According to CCDR projections, annual investments into the energy system (including transport and heating) will be US$10 billion by 2030, and much of this investment will need to be green to stay on track for long-term decarbonization.

69. Program: As an overarching mechanism to support green investments and achieve these targets, a Cabinet decision established a Green Taxonomy that sets rigorous definitions for environmentally sustainable activities and projects. The taxonomy methodology covers climate mitigation and adaptation as the key environmental objectives, along with sustainable water resources (including flood and drought management), circular economy (covering material reuse and recycling), pollution prevention (covering air pollutants like GHGs and water quality management), and biodiversity (covering land and forest restoration).

70. The next operation accelerates the achievement of these targets by strengthening green financing mechanisms. The national green taxonomy will be mandatory for all public and private entities benefitting from state financial support, with green investments prioritized to help achieve the climate targets.

> ***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.*
>
> ***Indicative Trigger:*** *To channel financing to green investments, the Borrower regulates the greening of state financial support programs and adopts a regulatory framework for green bonds.*

71. Expected Results: The flow of financing to investments that conform with the strict definitions under the Green Taxonomy will increase. This year the MEF began internal deliberations to identify funding sources for green financing, terms of such financing, and the option of leveraging commercial financing. It will also introduce green mandates into existing state funds, e.g., the Entrepreneurship Fund. The concept of a dedicated fund to support new green technologies,

[36] Decree No. 81 stipulates that indicators for carbon neutrality will be set for all activities subject to environmental impact assessment, starting 2024.

such as e-vehicles and charging infrastructure, was spelt out in other decrees. These financing vehicles will be guided by the green taxonomy, in terms of their operating and investment criteria, to support the target sectors and technologies spelt out in the Green Economy measures in Decree No. 436. This prior action is MFD enabling.

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

72. **This proposed operation is fully consistent with the focus areas of the 2022-2026 CPF.** All three pillars of the PDO are consistent with the first High-Level Outcome (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 PDO is also consistent with the second HLO of the CPF on improving human capital—specifically Objective 2.3, which aims to expand social protection coverage and improve inclusive labor market policies. Finally, the actions relating to energy sector reform, climate change and air pollution are consistent with the third HLO of the CPF, relating to improved livelihoods and resilience through greener growth, 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 closely aligned with the World Bank Gender Strategy (2024-2030) and Climate Change Action Plan (2021-2025) and IDA20 Special Themes and Cross-Cutting Issues (Climate, Jobs and Economic Transformation, Gender, Technology, Governance, and Institutions). A wide range of World Bank operational, analytical, and policy engagements have contributed to this operation. Further details are provided in Annex 8.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

73. **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. One of the earliest social reforms adopted by the government was to establish a public regulatory consultation portal and require all major reforms to be publicly consulted on. This portal has supported public consultations on most of the measures supported under this DPO. Some measures supported under this operation, such as energy tariff reform and green taxonomy, were significantly influenced by these public consultation processes. Increasing public and media scrutiny has helped strengthen social accountability. Local deliberative bodies are playing a more active role in monitoring the still heavily centralized government service delivery model and in holding regional officials appointed by the center to account. It is a regulatory requirement for senior officials and ministers to hold weekly open office sessions to meet with the public and to publish information about these sessions online.

74. **The World Bank works closely with other development partners to support the government's reform agenda.** The IMF and the World Bank continue to work closely and collaboratively to assess the adequacy of the macroeconomic framework and support to reforms. The World Bank works closely with several UN agencies on coordinated policy and reform support and with the ADB, the EU, KfW, AIIB, French Development Agency (Agence Française de Développement), and the Japan International Cooperation Agency, to ensure reforms supported under respective budget support operations are well coordinated.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

75. **Most of the supported prior actions are expected to have strongly positive or positive distributional impacts.** Six of the eleven prior actions have favorable poverty and distributional implications. Four are expected to have strongly positive distributional impacts, namely measures to liberalize the agricultural market, strengthen the social protection system, provide free legal aids to vulnerable individuals, and introduce the gender-based violence law. The two actions likely to have positive impacts are market competitiveness related reforms in rail and chemical sectors. Increasing energy

tariffs for legal entities could have negative but limited effects on the poor (Annex 4). Where adverse effects have been identified, mitigation measures through the social protection system under NASP and the use of other regulatory safeguards would moderate possible adverse poverty and social impacts relating to these actions. The other actions in this DPO will likely have neutral impacts across socio-economic groups.

76. **The introduction of an independent energy regulator is expected to implement tariff adjustments in gas and electricity, likely generating negative poverty impacts, albeit relatively limited.** Increases in electricity and natural gas tariffs for legal entities would take a toll on household purchasing power. However, the estimated welfare losses on poor households are marginal, since the cost push inflation of energy tariff increases at legal entities is likely limited in food items,[37] where the poor spends highest shares of their budgets (53 percent). To address potential negative impacts on poverty due to energy tariff reforms, compensation considerations were discussed by NASP in the social protection targeting assessment, and the World Bank team is currently preparing the project to support NASP in the development of an Adaptive Social Protection system that includes the introduction of new forms of social assistance to cope with economic shocks on vulnerable households due to energy tariff increases. The government plans to introduce a lifeline tariff system in protecting the poor from tariff increases in the next operation.

77. **Strengthening the sector's competitiveness and institutional environment in rail and chemical sectors could have favorable impacts on poverty.** The reforms in enhancing competitiveness in the rail and chemical sectors are expected to improve the quality of goods and services, support sectoral business growth and job creation, and expect efficiency gains that will lower the costs of services for consumers. Rodriguez-Castelan (2020) 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.

78. **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. Limitations of crops that they can produce and limited access to markets prevent the poor from producing an optimal mix of products and reduce their resilience to a range of shocks. With the supported reform to abolish the crop placement system, poorer rural farmers 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.

79. **The establishment of NASP is expected to more effectively target resources to the poor and vulnerable.** NASP is expected to improve coverage by reducing exclusion errors. Under the new NASP, increasing in-work benefits for those in unemployment, sickness, accident, and disability 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 no job protections, making them more susceptible to employment and income shocks. In Uzbekistan, 11 percent of the working-age population reported some disability (ranging from mild to severe).[38] Among those with self-reported disability, 19 percent are employed and if they are poor, only 11 percent are employed. Thus, increasing the efficiency and effectiveness of social protection programs under a new NASP would contribute to protecting more poorer households and those with disabilities from income and other type of shocks.

80. **The GBV law and state-sponsored free legal aid could contribute to enhancing socio-economic opportunities for women and vulnerable groups in the medium to long run**. Stopping violence against women is first and foremost a moral imperative, but research also suggests that it may help boost the economy. A recent study estimated that a 1

[37] The electricity and gas sector accounted for 2 percent of the food/agriculture intermediate input costs according to the 2019 input-output table.
[38] World Bank and 2022 HBS. The HBS used an adapted disability module with six areas of disability and three levels of disability.

percentage point decline in violence against women is associated with an 8.7 percent increase in economic activity, indicating the economic cost of violence against women and girls is substantial in female employment. 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, addressing GBV in this DPO can lead to lifting barriers for women's economic opportunities. Moreover, vulnerable individuals, including GBV survivors and those with disabilities, in low-income households could not afford to hire legal professionals even though they intend to claim their rights in court. Free legal aid helps remove financial obstacles and access to civil justice for vulnerable people and contributes to fulfilling their economic and social potential.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

81. **The majority of prior actions supported under this operation will generate positive environmental outcomes on the environment, forests, or other natural resources.** Energy sector reforms are expected to have direct positive effects, as energy subsidy withdrawal is likely to reduce energy consumption, thereby reducing GHGs and local air pollutants, which support climate change mitigation and reduced air pollution. Supported agricultural reforms will have positive impacts by encouraging investments into climate-resilient practices and efficiency measures. Climate change and air quality reforms will have positive impact by promoting green growth and managing air pollution. Chemical sector reforms may have potentially positive impacts due to expected private sector investment into high energy efficiency production technologies compared to the current production system.[39] The next operation will include enhancements to the EIA system, including Occupational Health and Safety issues, to better address environmental and social impacts associated with the ongoing economic transformation.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

82. **The 2018 Public Expenditure and Financial Accountability (PEFA) assessment highlights the strength of Uzbekistan's upstream public financial management (PFM) system in contrast to relatively weaker downstream systems** Some progress is also achieved in other areas, such as procurement, audit, financial reporting, subnational transfers, and the production of adequate performance information for service delivery. There are also certain weaknesses in managing public assets and liabilities that create fiscal risks. The weak areas related to policy-based fiscal strategy and budgeting, such as macroeconomic and fiscal forecasting, fiscal strategy, medium-term fiscal management, and the budget preparation process. Since then, the government has taken credible steps to develop and implement an ambitious PFM reform strategy. [40]

83. **The country's Supreme Audit Institution (Chamber of Accounts [CoA]) remains in the initial stages of development.** A new law to strengthen the CoA was approved by Parliament in July 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. Staffing levels have increased, and the CoA routinely conducts compliance and financial audits. The next priority is to align 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 but not published.

84. **The 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. The CBU has also been audited regularly by internationally recognized audit firms and received satisfactory audit reports. However, financial statements are prepared under internal accounting and reporting procedures issued by CBU that is not in line with the International Financial Reporting Standards (IFRS), and the audited financial statements of the CBU are not publicly

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[39] For the chemical sector development and implications to GHG emission, please refer to section 4.1.
[40] The next PEFA assessment is planned to take place in 2024.

available. The CBU aims to enhance transparency through the adoption of IFRS and publication of audited financial statements.

85. 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 by 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. 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 Treasury Single Account (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.

86. 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 (link to 2023 budget: https://api.mf.uz/media/document_files/Budjet_23_ru.pdf). 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 World Bank. Amounts refunded to the Bank for excluded expenditures (as defined in the General Conditions) will be canceled from the loan and credits.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

87. 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 SAMA, MEPR, the Ministry of Ecology, Environmental Protection and Climate Change, 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).

88. 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 World Bank 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 in order 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 World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's AM, please visit https://accountability.worldbank.org

6. SUMMARY OF RISKS AND MITIGATION

89. **The overall risk to the operation is moderate as Uzbekistan is establishing a track record for the effective delivery of major reforms.** Political and governance risks have moderated significantly since 2017 as the reform program enjoys strong political and public backing. Although the breadth and complexity of reforms are growing, the government has established a track record of mitigating negative social impacts, maintaining strong economic management, and strengthening citizen and media engagement. While recent administrative changes have led to some delays in implementation, the settling of stronger institutional frameworks for coordination and policy implementation is likely to reduce the risk environment in Uzbekistan over time. Nevertheless, to rebuild buffers over the medium term, the challenges of completing the transition ahead require careful management of economic and social risks and a firm commitment to maintaining macroeconomic discipline. The only substantial risk identified in this operation relates to institutional capacity. Other risks are assessed as moderate or low (Table 6).

90. **Institutional risks remain substantial due to the fast pace of reforms and the nascency of many critical government institutions.** Many of these institutions are new, and it will take time to identify and recruit expert talent in sectors that have long been managed through vertically integrated SOEs. It will also take time for these new institutions to develop clear sector strategies and policies and enforce strong governance. The government is actively making efforts in the short term to continue attracting global experts and diaspora talent to return to Uzbekistan for temporary assignments, increasing knowledge and expertise in-house. Less progress has been made to decentralize government functions and fiscal responsibilities. The government is well aware of these risks and is working closely with the World Bank and other institutions to receive expert assistance and policy advice.

Table 6: 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 and Triggers		Results		
Prior Actions under DPO 1	**Triggers 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[41] in 2023, through a Resolution of the Cabinet of Ministers No. 475 dated September 15, 2023.	**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.	**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 – 43% cost recovery (September 2023)	Electricity – 100% cost recovery Natural gas – 100% cost recovery (end-2026)
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	**Indicative Trigger # 2.** To make railway reform more effective, the Borrower submits: (i) a new Railway Law to Parliament that modifies the legal framework on competition regulation, tariff reform, continues organizational structuring of OTY and clarifies the role of the state in the sector; and (ii) through its Ministry	**Results Indicator #2.** Existence of a budgeted PSA Source: Ministry of Economy and Finance website	No PSA exists. (September 2023)	PSA presented in the public budget. (end-2026)

[41]Effective from October 1, 2023, tariffs for legal entities (non-residential consumers) will increase between 13% and 100% for electricity, and between 36% and 127% for natural gas, depending on the sector. On average, this will increase total electricity and gas tariffs by 25% and 65%, respectively. This will also bring the average cost recovery of electricity tariffs from 60% to around 75%, and natural gas tariffs from 40% to around 60%. Another tariff increase for residential and non-residential consumers is planned in 2024. The Government plans to reach tariff cost recovery by the end of 2026.

Prior actions and Triggers		Results		
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.	of Transport, approves the contractual framework for the first Public Service Agreement.			
Prior Action # 3. To create favorable market conditions in the chemical sector, the Borrower has: (i) mandated the organizational structure unbundling of Uzkimyosanoat (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.	**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.	**Results Indicator # 3.** Number of companies in the chemical sector with a majority of private ownership Source: SAMA website and Ministry of Justice for business registry.	0 (2022)	2 (end-2026)
Prior Action # 4. To liberalize the agriculture sector and promote higher productivity, the Borrower has: (i) 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 28 September, 2023.	**Indicative Trigger # 4.** To continue the liberalization of the agriculture sector and strengthen land tenure security, the Borrower removes from the Land Code the arbitrary requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts, through the Presidential Resolution.	**Results Indicator # 4.** Land productivity index 2022=100 (agriculture value added in real terms in billion sums per '000 hectare of sown area) Source: Uzbekistan Statistics Agency	100 (2022)	115 (corresponding 15 percent cumulative increase compared to 2022) (end-2026)

Prior actions and Triggers		Results		
	Indicative Trigger # 5. To improve the investment environment, the Borrower submits a new Investment Law to Parliament which upgrades the investment framework to strengthen investor protection guarantees and investor services.	**Results Indicator # 5.** The number of newly registered foreign companies per year Source: Statistics Agency	1249[42] (2020-2022 average)	1374 (corresponding 10% increase) (end-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.	**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.	**Results Indicator # 6.** 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 1 fiscal risk report covering PPP contingent liabilities (end-2026)
	Indicative Trigger # 7. To strengthen public procurement system, the Borrower amends the Public Procurement Law which strengthens integrity, transparency, and openness of the system.	**Results Indicator # 7.** The share of competitive (electronic) public procurement in total procurement Source: Ministry of Economy and Finance website	43.6% (2022)	60% (end-2026)
Pillar 3: Supporting Social Inclusion and Green Resilience				

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

Prior actions and Triggers		Results		
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.	**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.	**Results Indicator # 8.** The share of the poorest quantile receiving at least one type of social protection support **Results Indicator # 9.** The share of the labor force contributing to the new social insurance schemes Source: Procurement e-GP Portal	79% (2022) 0% (2022)	85% (end-2025) 15% (end-2026)
Prior Action # 7. To strengthen the protection of women against violence, including intimate partner violence (physical, sexual, economic, and psychological) and 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.	**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.	**Results Indicator # 10.** Percentage of GBV cases filed, including domestic and sexual violence, that receive a verdict protecting survivors. Source: Supreme Court website	5 (September 2023)	35 (end-2026)
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 actions and Triggers		Results		
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.		**Results Indicator # 11.** GHG emissions intensity (kg CO2eq/US$ GDP) Source: Biennial Report to the UNFCCC for Uzbekistan (2021), Government of Uzbekistan	2.55 kg/US$ 2017 data	2.42 kg/US$ By end-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) 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.	**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.	**Results Indicator # 12.** Reduction in air pollutants emitted by industrial sources relative to 2022[43] (% by weight) Source: Ministry of Ecology (Air Protection department)	0%	6% [end-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.	**Indicative Trigger # 11.** To channel financing to green investments, the Borrower regulates the greening of state financial support programs and adopts a regulatory framework for green bonds.	**Results Indicator # 13.** The share of state supported investments that conform with the Green Taxonomy Source: Ministry of Economy and Finance data	0% [baseline 2022]	30% by end-2026

[43] Estimate from Ministry of Ecology for 2022 is 874,000 tons of air pollutants from non-transport stationery sources.

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 – 43% cost recovery	Electricity and natural gas - 100% cost recovery
Existence of a budgeted PSA (Yes/No)	
Sep/2023	Dec/2026
No PSA exists	PSA 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 '000 hectare of sown area) (Number)	
Dec/2022	Dec/2026
100	115
Number of newly registered foreign companies per year (Number)	
Jan/2022	Dec/2026
1249 (average of yrs 2020-2022)	1374
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 or fiscal risks.	Approved fiscal framework, adopted methodology for fiscal risks assessment and management and at least 1 fiscal risk report covering PPP contingent liabilities
Share of competitive (electronic) public procurement in total procurement (Percentage)	
Dec/2022	Dec/2026
43.6%	60%
Pillar 3: Supporting Social Inclusion and Green Resilience	
Share of the poorest quantile receiving at least one type of social protection support (Percentage)	
Dec/2022	Dec/2025
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. (Number)	
Sep/2023	Dec/2026
5%	35%
GHG emissions intensity (kg CO2eq/USD 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)	
Nov/2022	Dec/2026
0%	30%

ANNEX 2: FUND RELATIONS ANNEX

Republic of Uzbekistan—Assessment Letter for the World Bank

September 29, 2023

Recent Developments and Outlook

1. Uzbekistan's economy has continued to grow robustly despite headwinds posed by Russia's invasion of Ukraine, global price pressures, and tightening global financial conditions. Propelled by strong export growth and fiscal support, Uzbekistan's economy is projected to grow by 5.5 percent in 2023, following 5.7 percent growth in 2022. Inflation is expected to decline to about 10 percent y/y at end-2023 from 12 percent at end-2022 on the back of a relatively tight monetary policy stance and a decline in the VAT rate from 15 to 12 percent, more than offsetting the impact of strong domestic demand, and global food and fuel price increases. The current account deficit is projected to increase to 4.3 percent of GDP in 2023 compared to a deficit of 0.8 percent of GDP in 2022, mainly reflecting a sizable but partial reversal of the sharp increase in remittances in 2022. International reserves have declined by about $3 billion in the first eight months of 2023 but are projected to increase slightly in the remainder of the year to around US$34 billion by end-2023 (equivalent to 8.4 months of imports and 37 percent of GDP).[44]

2. While the near-term outlook is relatively positive, uncertainty is large. Real GDP is expected to grow by 5.5 percent in 2024, and the current account deficit is foreseen to increase slightly to 4.6 percent of GDP due to increases in imports of machinery and as remittances return to normal levels. Inflation is expected to rise slightly in 2024 due to the secondary effects of the planned increase in administered energy prices for producers and households. External risks to Uzbekistan's economic outlook stem from a possible escalation of the war in Ukraine, a deterioration of growth in key trading partners (particularly China and Russia), and continued tightening of external financial conditions, Domestic risks could arise from further fiscal slippages or a persistent slowdown in reform momentum.

Economic Policies

3. Fiscal policy in 2023 aimed to balance the need to provide targeted social support with further reduction of the overall fiscal deficit to about 3 percent of GDP, but the deficit in the first half of 2023 was higher than planned. Revenues were in line with expectations, with a cut in the VAT rate offset by higher personal income and property tax proceeds. But expenditures on education and energy subsidies and policy lending rose significantly and the overall fiscal deficit is now expected to reach 5.5 percent of GDP in 2023.

4. Going forward, the authorities will face a challenge reducing the overall fiscal deficit to around 3 percent of GDP over the medium term. Part of the 2023 increases are structural, but the government is committed to reducing policy lending and raising energy prices to reduce subsidies in near term. Over the medium term, while the cut in the VAT rate is permanent, additional revenues rise over time from reductions in tax expenditures, the payoff from reform of the mining tax regime, and improvements in tax administration. On the expenditure side, the government plans to contain spending, make public investment more efficient, and better target social spending. Fiscal deficits in the coming years will continue to be largely financed by support from multilateral and bilateral partners with some financing coming from privatization and issuance of domestic treasuries, reflecting continued efforts to grow the domestic financial market. Over the medium term, Uzbekistan will face the challenge of rebalancing public financing towards market-based and domestic sources.

[44] At the time of the 2022 Article IV consultation (IMF Country Report No. 2022/189), Uzbekistan's external position was assessed as broadly consistent with economic fundamentals and desirable policies.

5. Debt remains relatively low, and the authorities remain committed to ensuring fiscal sustainability. The previous debt sustainability analysis (DSA)[45] estimated public and publicly guaranteed (PPG) debt would peak at 38 percent in 2022 before falling to 32 percent of GDP by 2027. The medium-term outlook is largely unchanged. PPG debt peaked in 2020, declined to 35 percent in 2022, and is still projected to fall to 32 percent in the outer years. Low rollover risks due to the long maturity of debt and relatively high international reserves also contribute to a low risk of debt distress. The authorities enacted a state debt law in 2023 which limits PPG debt to 60 percent of GDP to leave a buffer to deal with large potential shocks. The law also requires the government to produce an action plan if PPG debt reaches 50 percent of GDP, and requires annual borrowing limits, including limits on PPP commitments.

6. The Central Bank of Uzbekistan (CBU) remains committed to containing price pressures and gradually bringing consumer price inflation down to the CBU's medium-term inflation target of 5 percent. Real rates remain positive with the CBU policy rate at 14 percent and inflation around 10 percent. In the near term, inflation is expected to remain elevated due to food price pressures and increases in administered energy prices. The exchange rate continues to adjust, depreciating about 8 percent so far in 2023. The CBU policy aims to offset excessive volatility and implement a neutral intervention policy whereby foreign exchange intervention is limited to offsetting the impact of purchases of domestically produced gold on the money supply.[46] Exchange rate risks could arise from global or regional economic shocks or additional volatility in commodity prices.

7. Financial indicators are strong. Banks' capital adequacy ratio was 16.4 percent in mid-2023, well above the regulatory minimum of 13 percent, and banks have ample liquidity. Non-performing loans (NPLs) remained about 3.5 percent of gross loans in 2023, but some small banks continue to have high NPLs. In October 2022, the CBU closed two of these banks, with no spillovers to the rest of the banking sector. Despite tight financial conditions, credit growth remains high, particularly for car loans, micro credit, and mortgages. To address this risk, the CBU tightened loan-to-value ratios and concentration limits. The financial sector remains dominated by state-owned banks (10 of 31 banks), accounting for 79 percent of banks' assets. Improvements in the state-owned banks' governance and bank privatization are ongoing, but further progress to curb their dominant position is needed to improve competition, financial intermediation, and access to financial services.

8. The authorities are continuing market-oriented structural reforms, but momentum slowed in 2023, and the next stage of reforms will be more difficult. The government has improved the transparency of public procurement, strengthened reporting and management of SOEs, and privatized a major bank. Following government reorganization, a constitutional referendum, and a Presidential election, further reforms were announced. In the near term, additional needed reforms include raising energy prices to at least cost recovery levels, further restructuring and divesting SOEs, privatizing banks, and enhancing competition policy to reduce the role of the state in the economy.

IMF Relations

9. Surveillance and financial support. The IMF Executive Board concluded the 2022 Article IV Consultation on June 15, 2022 (see IMF Country Report No. 2022/189). In August 2021, the IMF Executive Board approved an allocation of Special Drawing Rights (SDR) to its members, of which Uzbekistan received about $750 million. The authorities have used $500

[45] See IMF Country Report 22/189.
[46] The Central Bank of Uzbekistan purchases USD 4-6 billion of gold from domestic producers each year to manage and diversify its foreign asset portfolio. Gold comprises about 70 percent of reserves.

million of the allocation for budget support with the remainder increasing international reserves. The next Article IV consultation will likely take place in spring 2024.

10. Capacity Development. The IMF provides significant technical assistance to Uzbekistan. Technical assistance areas include tax policy, tax administration, public financial management, debt management, monetary and foreign exchange operations, stress testing, and statistics (including external sector and government finance statistics, monetary and financial surveys, and national accounts).

Table 1. Uzbekistan: Selected Economic Indicators, 2019-2025							
	2019	2020	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.
National income							
Nominal GDP (in trillions of Sum)	533	606	738	888	1,048	1,222	1,439
Population (in millions)	33.3	33.9	34.6	35.3	36.0	36.7	37.5
GDP per capita (in U.S. dollars)	1,813	1,776	2,014	2,280	2,509	2,710	3,016
Real sector				(Annual percent change)			
GDP at current prices	24.9	13.7	21.9	20.3	18.0	16.6	17.8
GDP at constant prices	6.0	2.0	7.4	5.7	5.5	5.5	5.5
GDP deflator	17.8	11.4	13.5	13.8	11.8	10.6	11.6
Consumer price index (eop)	15.2	11.2	10.0	12.3	9.9	10.7	9.3
Consumer price index (average)	14.5	12.9	10.8	11.4	10.2	10.0	10.4
Money and credit				(Annual percent change)			
Reserve money	17.8	15.4	28.3	31.4	18.7	17.1	16.0
Broad money	13.8	17.9	30.3	34.9	23.2	20.5	22.5
Credit to the economy growth (adjusted for FRD transfers) 1/	48.1	34.4	18.4	21.4	20.0	18.0	17.8
Velocity (in levels)	5.8	5.6	5.3	4.7	4.7	4.4	4.2
				(Percent of GDP)			
Broad money	17.1	17.8	19.0	21.3	22.2	23.0	23.9
Credit to the economy	39.2	46.3	45.0	45.4	46.2	46.7	46.7
External sector				(Percent of GDP)			
Current account	-5.6	-5.0	-7.0	-0.8	-4.3	-4.6	-4.7
External debt	42.2	56.8	57.8	53.5	52.4	51.6	49.5
				(Annual percent change)			
Exports of goods and services	20.4	-14.6	13.1	33.4	26.4	22.5	18.5
Imports of goods and services	13.4	-14.9	23.4	27.5	12.9	19.1	16.9
Exchange rate (in Sums per U.S. dollar; eop)	9,508	10,477	10,838	11,225	...	...	...
Exchange rate (in Sums per U.S. dollar; ave)	8,837	10,054	10,609	11,047	...	...	...
Real effective exchange rate CPI based (2015=100, - = dep)	65.5	65.5	65.3	61.6	59.5	58.0	58.4
Gross international reserves (in billions of U.S. dollars)	29.2	34.9	35.1	35.8	33.6	32.5	32.4
Gross international reserves (months of imports)	15.5	15.0	11.8	10.7	8.4	7.0	6.1
Government finance				(Percent of GDP)			
Consolidated budget revenues 2/	27.5	26.5	27.7	32.3	31.2	30.4	30.6
Consolidated budget expenditures 2/	31.3	30.8	33.2	36.2	36.2	34.4	34.1
Consolidated budget balance	-3.7	-4.3	-5.5	-3.9	-5.0	-4.0	-3.5
Adjusted revenues 3/	26.8	25.5	25.9	30.9	29.7	29.3	29.6
Adjusted expenditures 3/	27.1	28.7	30.5	35.0	34.3	33.2	32.9
Adjusted fiscal balance	-0.3	-3.3	-4.6	-4.2	-4.6	-3.9	-3.3
Policy lending	3.5	1.1	1.5	-0.1	0.9	0.2	0.3
Overall fiscal balance	-3.8	-4.4	-6.0	-4.1	-5.5	-4.1	-3.5
Total public & publicly guaranteed debt	28.5	37.4	36.6	34.9	35.1	34.8	33.9
Labor market							
Formal sector employment growth (percent)	3.0	3.0	8.1	3.9	3.0	3.0	3.0
Working-age population growth (percent)	-4.3	1.0	1.0	0.8	1.0	1.0	1.0
Unemployment rate (percent)	9.0	10.5	9.6	8.9	8.4	7.9	7.4
Labor migrants (millions)	2.5	1.8	1.5	1.9	1.9	1.9	1.9

Sources: Country authorities; and IMF staff estimates.
1/ FRD: Fund for Reconstruction and Development.
2/ Beginning in 2022, off-budget accounts of ministries and agencies were included in the budget.
3/ Adjusted fiscal data are budget data adjusted for financing operations, such as equity injections, policy lending, and privatization of state enterprises.

ANNEX 3. LETTER OF DEVELOPMENT POLICY

O'ZBEKISTON RESPUBLIKASI
IQTISODIYOT VA MOLIYA VAZIRLIGI

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RECEIVED
By Mukambar at 10:19 am, Oct 30, 2023

Ajay Banga
President
World Bank Group

Dear Mr. Banga,

I am writing to you on the occasion of yet another landmark in our close and successful partnership with the World Bank Group, a new programmatic development policy series, which supports key ongoing reform priorities of this government and the newly released *Uzbekistan 2030 Strategy*.

Under the leadership of President Shavkat Mirziyoyev our nation remains steadfast in its commitment to radical reform all aimed at ensuring the well-being of all citizens. Much was achieved with the National Development Plan spanning from 2017 to 2021. We have embarked on a broad and ambitious reform program, aimed at building a legal democratic state, a robust civil society in the country, an economy based on free market principles, the conditions for people to live a peaceful and prosperous life, and the widening of Uzbekistan's engagement in the international arena.

We are expanding dialogue between people and the state. Openness and transparency of state bodies and officials, and their accountability to society, have been increased with regular publication of their reports online, and providing more information about their activities in an accessible way in the media and on social media. The government has launched a Citizen's Budget process. The role of the parliament has been increased. The ban on forced labor is guaranteed in our renewed Constitution and the criminal liability for the involvement in forced labor has been introduced. The system of *propiska* and exit visas has been radically liberalized. Protection of the rights of entrepreneurs has been strengthened. The foreign exchange market was deregulated. The Central Bank of Uzbekistan has adopted inflation-targeting and inflation as of September 2023, stands at 9 percent, compared to 19 percent in 2017. A total of 5,385 enterprises and objects were privatized from 2018 till the first half of 2023 with privatization revenue of US$1.5 billion. The drive to privatize state-owned enterprises continues with the new privatization program 2022-2025. In the banking sector, the plan is to reduce the state-share of banking system assets from 85 percent to 40 percent by 2025 through the full sale of six large state-owned banks. Ipoteka bank (the fourth largest bank) was privatized in 2022. Examples of privatization of majority stakes include the Coca-Cola plant, Fergana Azot, Hyatt Regency Tashkent hotel and many others.

In recent years, Central Asia has embarked on a path of good neighborliness, stability, joint partnership and progress. Thanks to our joint efforts, Uzbekistan has managed to address problems of state borders, transport corridors and water use with its neighbors. Over the last six years, trade between the Central Asian countries has grown by more than two and a half times and the number of joint ventures has increased five-fold. The enhanced relationships among Central Asian countries have increased opportunities for regional energy connectivity and trade. The enhanced regional relationship following new leadership and reforms in Uzbekistan has led to new bilateral accords on trade, energy, transport, and investments in the region. Uzbekistan has resumed its gas supply to Tajikistan and expressed interest in joint development of hydropower in Tajikistan and Kyrgyz Republic. Tajikistan's electricity exports to Uzbekistan have resumed. Uzbekistan has resolved its border disputes with Kazakhstan, Kyrgyzstan, and Tajikistan, setting the stage for further co-operation among Central Asian nations. With a progressive reform agenda, regional cooperation and our central location between Asia and Europe, Central Asia is becoming a new frontier of economic development, and interest in investment and partnerships in our country have been growing.

Creation of a market economy and a just society

In April 2023, a nationwide referendum was held on a new Constitution, which defines the priorities of national development. More than 90 percent of the voters supported new Constitution, which emphasizes strong social support policies. The Constitution reaffirms our commitment to the principles of equality of all citizens, human rights, freedom of speech and conscience, regardless of nationality, language or religion.

We have adopted the new Development Strategy "Uzbekistan – 2030" which is in line with the United Nations Sustainable Development Goals and Uzbekistan's transition to an inclusive, competitive, and private sector-led market economy remains the main instrument of achieving the strategic goals.

At a high level, our objective is to double GDP per capita to reach the level of an upper middle-income country by 2030 by ensuring high and stable economic growth. We will focus on enabling entrepreneurs and 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. Since 2017, poverty in our country has been halved thanks to the policies aimed at improving the living standards of our people. We plan to cut it further by half from 14.2 percent in 2022 to 7 percent by 2030.

We are convinced that economic growth through structural transformation is the only way to reduce poverty sustainably and permanently, create jobs and usher in prosperity. We realize that post-pandemic situation in the world slowed job creation in Uzbekistan, and wages have been lagging productivity. This calls for us to redouble our efforts to generate real and lasting changes that will allow the private sector to create more, and higher quality, jobs. Key supporting elements of this agenda will be ensuring that the educational and skills development system is well targeted towards what employers need and further improving the business environment to attract more foreign direct investment.

We are taking measures to improve the investment climate and competition, in order to attract US$110 billion in foreign investment and US$30 billion of public-private partnerships by 2030 and to double the volume of exports to US$45 billion dollars.

In order to push forward on our path of transformation, I am delighted to set out to you some of the most critical reform steps we have taken in 2023. Firstly, we have taken decisive action to reduce the state role in key markets to create space for the private sector.

Energy is the lifeblood of the economy and a necessity for all homes, but we have struggled with years of underinvestment, weak sector performance and heavy implicit and explicit subsidies. As we have committed to your predecessor in our Letter of Development Policy dated November 4, 2022, we have taken decisive steps to liberalize energy markets. We have established in legislation the requirement for an independent energy regulator, that will take over the functions of sector regulation and tariff-setting from central government. This reform package also includes a substantial increase in tariffs for legal entities to move much closer to cost recovery. We have also mandated the separation of the power transmission system and commercial functions. Next year, and as long as the reform progress moves ahead smoothly, we intend to introduce a new tariff structure for residential users which preserves low costs in line with a *social norm* (or lifeline tariff) and raises rates in line with tariffs for the legal entities. We will also amend and submit a new Electricity Law to the Parliament to align the sector with the latest institutional and market reforms.

Uzbekistan's rail network is a key strength – which includes the only high-speed rail line in Central Asia, running at 250km per hour. Our rail network is heavily used with internal freight, transit freight and passengers, but it is struggling to manage with growing capacity. As a first step in a comprehensive reform program, we have approved institutional reforms in the sector, mandating that the Uzbekistan Railways (UTY) company is restructured to separate the infrastructure, freight, and passenger business units; to modernize accounting systems; and to unbundle and sell of non-core assets. These reforms will enable more effective and transparent management of the businesses, reducing cross-subsidization and preparing some business units for potential privatization.

As a next step, we are building on our new railways strategy to develop a new Railway Law which will modify the legal framework on competition regulation, tariff reform, and clarifies the role of the state in the sector. Essential subsidies to support services in socially important areas will be subsidized in a more transparent and costed way, with the Public Service Agreement, which will be explicitly budgeted for starting from 2025.

In aviation, the government continues to implement previously agreed reforms supported by the World Bank. The Silk Avia airline was transferred from the airport operator to Uzbekistan Airways.

To further advance in enhancing connectivity, we will persist in intensifying reforms related to digitalization and the modernization of system operations. This approach will facilitate the delivery of top-notch digital government services to the public, in line with the "Digital Citizen" concept, and ensure the provision of high-quality telecommunications services. For many years, agriculture has been a mainstay of the Uzbekistan economy. However, intensive and unsustainable practices have reaped ecological havoc, while overbearing state control has reduced the ability of farmer and businessmen to make their own way to prosper. We are systematically breaking down the barriers to free markets to go further in liberalizing the agriculture market, we have abolished the crop placement system for all crops, which has been in place since Soviet times, allowing farmers to grow whatever they want to. To improve the effective land tenure security, next year we will remove from the Land Code the somewhat arbitrary requirements on minimum farm yield and the mandatory farmers' membership in the Farmers Council in order to maintain land rental contracts.

Building on past reforms in price liberalization in agriculture, we are now tackling the critical chemicals sector, much of which is fertilizers. We have declared the unbundling of the large chemical SOE conglomerate, Uzkimyosanoat (UKS), and stripped it of regulatory and SOE shareholding functions, to be assigned to the relevant government bodies. The privatization of FerganaAzot is the first of several privatizations in a high-potential sector.

These reforms will not only improve the efficiency of the sector and encourage private investment but benefit farmers and the environment at large. A key benefit of reform is to advance from the simplistic and carbon-intensive nitrogen fertilizer to a richer NPK fertilizer product. Since this three-component fertilizer uses far less nitrogen, based on natural gas, it also has far less of an impact on climate change, and will contribute to our emissions reduction targets. Uzbekistan is blessed with all the natural ingredients for this, which will enable our farmers to effectively grow high value and export-quality fruit and vegetable, while supporting the development of local value chains.

We will also work further on improving the business environment and attracting more foreign direct investment into the country by strengthening the legislation. In the area of strengthening fiscal risk management, we have tasked the Fiscal Risk Department in the newly structured Ministry of Economy and Finance to evaluate, monitor, and report on contingent liabilities in public-private partnership (PPP) projects and publish consolidated PPP risk report and define the methodology. To ensure further improvements in fiscal risk management we plan to prepare a Fiscal Risk Report, with the technical assistance of the World Bank and other partners.

Our public procurement system has undergone positive development in recent years but still requires improvements that can offer better value for money and address the global emerging priorities. In order to move toward the best practices in public procurement, we will adopt, for the first time, a five-year Public Procurement Strategy (2023-2027), developed with the World Bank's support. As to the next step in this reform strategy, the Public Procurement Law will be amended to implement key aspects of the strategy. It is expected that these reforms will enable the use of framework contracts, enhanced lists of procurement methods for fit-for-purpose procurement approach, and improved transparency through better handling of complaints.

Supporting social inclusion and green resilience

With the support of the World Bank and other partners, we are proud of the modern, targeted and protective social assistance program that we have developed in the last few years. Millions of vulnerable and low-income people are now benefiting from cash support. The main social assistance program provides financial aid to poor families and families with children. The reach of this program has expanded from 0.6 million households before the pandemic to 2.1 million in 2023. Spending on social assistance has increased from 0.9 percent of GDP in 2019 to 1.7 percent in 2023, comparable to levels in European countries. A single registry for social protection was introduced with assistance from the World Bank and UNICEF to better identify and target vulnerable households. However, with the rapid advancement of policy and programs in this area, we now need to consolidate the overall social protection system. The first major step in this process was achieved in 2023 with the development of an overarching Law on Social Protection. Now, we are addressing operational fragmentation and a lack of policy coordination. We have established the National Agency for Social Protection, to address these issues. The new agency is expected to improve the effectiveness of social protection policy, particularly by reducing inefficiencies and overlaps between instruments. Next year, and under this holistic framework, we will extend the social protection system to provide selected in-work benefits which will raise the incentives for labor market participation and make labor markets function more efficiently. A law on social insurance will be developed that will establish a contributory system of unemployment, sickness, accident, and disability-in-work benefits. The measures supported are expected to improve the integration, coverage performance, and quality of social protection services.

Violence against women and children, at home or anywhere else, has no place in our free and fair society and our President is committed making such acts both prohibited in law and socially unacceptable. We have already taken progressive steps in recent years to create a framework against gender-based violence and protect victims. Now, we have approved a landmark amendment law which clearly criminalizes intimate partner violence and sexual violence by a non-partner. In addition to physical violence, we have also made economic and psychological violence and sexual harassment an offense; and extended protection orders for GBV survivors to up to one year. To further ensure that women can effectively seek justice in cases of gender-based violence, we plan to remove domestic violence cases from the list of crimes that can be resolved through reconciliation, in line with international good practice.

We have supported effective justice for all parts of our society, especially for the more vulnerable and those lacking financial means. We have approved a new law on free legal assistance. In Uzbekistan, those accused of criminal offenses already have the right to free legal aid to defend themselves. However, those seeking justice, including but not limited to victims of domestic violence, do not have access to free legal assistance, and thereby the cost of legal services can be a significant deterrent for low-income people in securing access to justice as well as other vulnerable groups. Following years of discussion and advocacy from civil society and from the legal experts, this new law establishes a right to free legal aid for plaintiffs from registered solicitors, based on need. Those eligible for free legal aid include low-income persons who are bringing a case or who are accused of an offense, whether administrative of criminal; individuals suffering from mental disorders; and individuals who are pursuing a case of a violation of their gender equality rights, amongst others.

Mr. President, I know your and your institution's commitment to solving the global problem of climate change, and I am pleased to inform you that with the "Uzbekistan – 2030" strategy, we are for the first time, including explicit climate change reforms as part of our development policy partnership with the World Bank. Our country has ramped up ambition and action on addressing climate change. Our new Green Development Plan (Presidential Decree No.436 dated December 2, 2022) sets out more ambitious overall targets for reducing greenhouse gas emissions and includes a raft of specified sectoral actions and policy targets for climate adaptation and mitigation. To clearly spearhead our climate change focus, we have created a new Ministry of Ecology, Environmental Protection and Climate Change. But on top of this we are already rolling out new policies. We have approved a new National Green Taxonomy, developed with the support of the World Bank which will provide a basis for targeted, clear and verifiable climate change action by all actors. Further to that, and to tackle the twin scourges of air pollution and climate change, we have upgraded our regulatory and monitoring framework for air pollution, which will ensure that polluters are accurately monitored and charged appropriate fees, in order to incentivize measure to mitigate emissions. Building on these measures, next year, we will bring in another raft of ambitious policy steps. We plan to introduce new air quality standards, which will also apply to transport emissions, to further ensure clean air and reduced CO_2 emissions. We also plan to launch a new set of environmental impact assessment standards, to ensure that climate and environment considered are well integrated into all project planning.

Conclusion

The reforms that I have outlined remain a part of broad economic and social reforms program under way. The multiple shocks we have faced during the implementation of these reforms have only hardened our political will to continue implementing these reforms.

The World Bank through its Development Policy Operations have been a reliable partner to this reform process, and this First Inclusive and Resilient Market Economy Operation provides strong support to our reform program for two years and it provides certainty and commitment on both sides. It is my sincere hope that this support will continue in the future as we started to tackle more complex reforms that require deeper engagement and support. We remain committed to implementing our reforms to achieve targeted outcomes.

I would like to reiterate the appreciation of the Government of Uzbekistan for the years of close cooperation and continued partnership with the World Bank in the areas of poverty reduction, shared prosperity, and preserving livable environmental conditions in Uzbekistan and promoting economic and social development. I look forward to continuing to work with you and your team, and to you visiting Uzbekistan soon.

Sincerely,

Djamshid Kuchkarov
Deputy Prime Minister -
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: Energy market reforms	Better cost recovery is expected to yield positive environmental and climate benefits through investment in sector governance, modernization, and efficiency.	Possible negative but limited impacts
Prior action #2: Railway sector reforms	Potentially positive environmental impacts since rail transport is generally a more energy-efficient mode than road and air transport alternatives.	Potentially positive poverty impacts
Prior action #3: Chemical sector reforms	Potentially positive environmental impacts due to expected private sector investment into high energy efficiency production technologies compared to the current production system.	Potentially positive poverty impacts
Prior action #4: Agriculture reforms	Potentially positive environmental impacts since the actions encourage farmers to increase investments in water-saving technologies and land improvements.	Positive poverty impacts and positive distributional effects.
Operation Pillar 2: Improving Fiscal Risk Management and Public Procurement		
Prior action #5: Fiscal risk management	Neutral	Neutral
Operation Pillar 3: Supporting Social Inclusion and Green Resilience		
Prior action #6: Creation of the National Agency for Social Protection	Neutral	Positive poverty impacts, positive distributional effects
Prior action #7: Criminalization of Gender-Based Violence	Neutral	Positive poverty, social, and gender impacts
Prior action #8: Enactment of free legal aid law	Neutral	Positive poverty, social, and gender impacts
Prior action #9: Climate change and green economy	Positive environmental impacts	Mostly neutral but potentially positive impacts in the long-term
Prior action #10: Climate and environmental institutions and air quality	Positive environmental impacts	Mostly neutral but potentially positive impacts in the long-term
Prior action #11: Greening financial flows	Positive environmental impacts	Mostly neutral but potentially positive impacts in the long-term

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 green resilience.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Yes.** The DPO reform program is consistent with Uzbekistan's 2021 updated NDCs[47] to the Paris Agreement, as well as with the 2022 Presidential Decree[48] and with the findings of the CCDR. Long-Term Strategy (LTS) and a NAP are not available yet, while the CCDR is almost finished and awaiting publishing. 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 energy subsidy reform supported by the DPO is expected to increase energy efficiency and moderate overall energy consumption, while boosting the use of renewable energy sources. Under the energy reform scenario, natural gas consumption is expected to decline even with rapid economic growth. For the chemical sector, the entry of private investors will lead to technology modernization and increased efficiency for the fertilizer sector, with emissions expected to reduce on a unit production basis. Regarding adaptation, the reforms in the agriculture sector are expected to address Uzbekistan's climate change vulnerabilities and increase climate resilience by enabling farmers to increase investments in water-saving technologies and land improvements and promote more climate-resilient crop varieties. Reforms from the third pillar are supporting green growth by addressing several country-specific climate action priorities, contributing to mitigation and adaptation, and strengthening resilience to the anticipated impacts of climate change. Therefore, the path of the reforms supported by the DPO is consistent with the national climate action plans and with the recommendations of the CCDR.
Mitigation goals: assessing and reducing the risks	
<u>Pillar 1: Creating Markets</u>	**Prior Actions 1, 2, 3, 4 and 5**
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*

[47] https://unfccc.int/sites/default/files/NDC/2022-06/Uzbekistan_Updated%20NDC_2021_EN.pdf
[48] https://www.fao.org/faolex/results/details/en/c/LEX-FAOC197281/

	No. 166 dated September 28, 2023; and (b) increased tariff levels for legal entities in 2023, through a Resolution of the Cabinet of Ministers No. 475 dated September 15, 2023.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No**. The establishment of an independent energy regulator and the implementation of energy tariff reform is aimed at accelerating Uzbekistan's transition to a competitive electricity market in the medium-long term. The path of reform is consistent with the findings of the CCDR - the list of urgent actions recommended by the CCDR includes the completion of energy tariff reforms, including subsidy removal and setting up a tariff mechanism with an independent regulator. The price increase applies to both natural gas directly and electricity, much of which is produced by natural gas. This is expected to lead to moderation of overall energy consumption, increases in energy efficiency and growth in renewables. The findings of the CCDR forecast a decline of natural gas consumption over the next 10 years under the 'reference scenario' that reflects energy subsidy reform, notably despite rapid economic growth.
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.*
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Policies that aim to strengthen railway institutions and governance and improve financial management are not expected to cause significant GHG emissions.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** This Prior Actions will not cause significant increase of GHG emissions. This Prior Action supports interconnectivity and enables access to international data gateways, and it does not engage with creation of local data centers. Per Digital Development Sector Note such policy actions are considered low risk for the mitigation goals of the Paris Agreement.
Prior Action 3:	*To create favorable market conditions in the chemical sector, the Borrower has: (i) mandated the organizational structure unbundling of Uzkimyosanoat (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, Investment 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.*
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Not probable, but possible.** This Prior Action aims at increasing efficiency of production, so it is expected to result in a lower consumption of natural gas per unit of final product. While the reform is not expected to significantly increase production of fertilizers (and with it cause an increase in GHG emissions) in a short run, an increase in production is still possible, depending on how markets develop. Therefore, the Paris Alignment assessment includes the step M.2.2 below.

Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**No.** This Prior Action will not introduce any persistent barriers to transition to the country's low GHG emissions development pathways. Based on the findings of the CCDR on Uzbekistan's decarbonization strategy, the energy sector reforms, and chemical sector reforms combined will incentivize less carbon intense technologies for fertilizer production in the medium-long term. The subsidy reform in the gas sector will make fertilizer industry more efficient, promoting diversification of feedstock moving away from the natural gas that will not be subsidized any more. This will facilitate the transition to cleaner resources (i.e. switch from grey to green ammonia). The forthcoming ECA Energy Futures report concludes that even without incentives, green ammonia production using solar in Central Asia becomes cost-competitive between 2030 and 2035 compared with grey ammonia production, while, from 2035, green ammonia also becomes cost competitive with blue ammonia. Green ammonia offers important potential in Central Asia not only as a means for decarbonization but also to improve long-term competitiveness of the region's fertilizer industry (food and textile industry) while enhancing the security of domestic fertilizer supplies. Uzbekistan, along with some other Central Asian countries, is actively pursuing the development of lower carbon alternatives to ammonia production. Preliminary studies for green ammonia production have been announced in Tajikistan (supported by the Bank), Uzbekistan, Kazakhstan and Turkmenistan, and some are engaged in discussions with international partners to construct a large-scale blue ammonia production facility incorporating CCS technology.
Prior Action 4:	*To liberalize the agriculture sector and promote higher productivity, the Borrower has: (i) 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 the abolition 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 28 September, 2023.*
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** This Prior Action will not cause significant increase of GHG emissions. The removal of the crop placement system (and min yield requirements and greater tenure security) will remove the largest obstacle to climate-smart agriculture and is expected to lead to a decrease of GHG emissions. The shift away from the crop placement system means that farmers will have greater incentives to invest in protecting soil health, and healthier soils absorb and store more carbon. Farmers will also plant much more profitable fruit trees under a liberalized land use system, replacing part of the land previously allocated to cotton and wheat, and a higher share of land under fruit trees will also help to reduce emissions. Compared to cotton, less mineral fertilizers are used for planting fruit trees, vegetables, and legumes. Applying fewer mineral fertilizers will improve soil health while at the same time reducing GHG emissions from fertilizer use. The reform is not expected to impact the livestock sector.

Conclusion Pillar 1 (Prior Actions 1,2,3 and 4): All four Prior Actions from Pillar 1 are aligned with the mitigation goals of the Paris Agreement.

Pillar 2: Improving Fiscal Risk Management and Public Procurement	**Prior Action 5**
Prior Action 5:	*To strengthen fiscal risk management, the Borrower has mandated the Fiscal Risk department within the MEF to evaluate, monitor and report on contingent liabilities in PPP project and to define the methodology, through a Resolution of the Cabinet of Ministers No. 558 dated October 23, 2023.*
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** This Prior Action will not cause significant increase of GHG emissions.
Conclusion Pillar 2 (Prior Action 5): Prior Action 6 is aligned with the mitigation goals of the Paris Agreement.	

Pillar 3: Supporting Social Inclusion and Green Resilience	**Prior Actions 6, 7, 8, 9, 10 and 11**
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 strengthen the protection of women against violence, including intimate partner violence (physical, sexual, economic, and psychological) and 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.*
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 Decree No. 436 dated December 2, 2022*
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) 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, respectively through Presidential Resolution No. 171 and Presidential Decree No. 81 dated May 31, 2023.*
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.*
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Prior Action 6, 7,8, 9, 10 and 11 will not cause significant increase of GHG emissions. At the contrary, several of the reforms will reduce GHG emissions and support Uzbekistan's transition to low GHG emissions development path.

Conclusion Pillar 3 (Prior Actions 6, 7, 8, 9, 10, and 11): All six Prior Actions from Pillar 3 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 and 4**
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 prior actions in Pillar 1. Overall objectives of the reforms under Pillar 1, the liberalization of markets and enabling private sector participation, are expected to increase resilience of assets to the impacts of climate change, by attracting private ownership. The aimed outcomes of the proposed **reforms in energy, railway, chemicals, and agriculture sectors** are not expected to be affected by risks from climate hazards.
Conclusion Pillar 1 (Prior Actions 1, 2, 3 and 4): All five Prior Actions from 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 5**
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Not likely, but possible.** The decree itself does not go into the project level details of risks and risk mitigation, and the prior action establishes a general framework including the process and responsibilities of analyzing, evaluating and managing fiscal risks from PPPs. Climate change may impact PPPs as any other infrastructure projects. Therefore, measures will be put in place to mitigate the risks to an acceptable level.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**Yes.** The World Bank is providing support to the MEF in developing a methodology to operationalize the decree, which will discuss the relationship between project risks and fiscal risks and specifically, how climate risks can affect fiscal sustainability of the public finances. The methodology will incorporate more climate considerations, how to assess possible fiscal impact from climate hazards that a project may be exposed to and will contribute to the government efforts to align their decisions with the global climate agenda and priorities as well as the country's NDCs. Specifically, the PPP department together with ADB are establishing tools to address environmental and social aspects of project preparation. Climate risk screening will be a big part of it, and further requirements for enhancing the project outputs and design requirements to incorporate climate adaptation and mitigation features.
Conclusion Pillar 2 (Prior Action 5): Prior Action 5 is aligned with the adaptation and resilience goals of the Paris Agreement.	

Pillar 3: Supporting Social Inclusion and Green Resilience	Prior Actions 6, 7, 8, 9, 10, and 11
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 prior actions in Pillar 3. By supporting environmental sustainability and mitigation climate action, several reforms from this pillar will have positive impact on climate resilience as well.
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 ASSESSEMENT: The operation is aligned with the goals of the Paris Agreement	

ANNEX 6: PROPOSED REFORM ACTIONS SUPPORTED UNDER THIS PROGRAM AND UZBEKISTAN CCDR

CCDR Recommendations: Urgent Climate Actions		Supported by this DPO
Cross-cutting		
Set ambitious NDC and carbon neutrality targets		The DPO includes a prior action that sets an ambitious GHG target of 35% reduction on an intensity basis. In parallel, TA is underway to support the government's "Long Term Strategy" for deep decarbonization by 2050.
Improve investment environment and strengthen private sector reforms		Prior Actions 2, 3, 5, and 11 improve conditions for private sector in the rail and chemical sectors, and for infrastructure PPPs and green investment projects.
Green taxonomy and MRV system		Partially included in the DPO: The DPO includes a prior action to establish a green taxonomy, and the team is in parallel engaging the government on draft legislation on setting up an MRV system on GHGs.
Sectoral		
Energy	Complete energy subsidy reform	Included in the DPO under tariff adjustments and independent energy regulator of Prior Action 1.
	No new coal; prioritize natural gas	Not included in the DPO
	Reduce gas losses and fugitive emissions	Included in DPO under the GHG targets of the green economy decree of Prior Action 9
Urban	Focus on green urban development	Included in DPO under the reforestation targets of the green economy decree of Prior Action 9
Water, Agri, land-use	Increase efficiency in irrigation	Included in DPO under the water efficiency targets of the green economy decree of Prior Action 9
	Incentivize Climate-Smart Agriculture	Partially included in DPO under resource efficiency investment targets of Prior Action 9
	Invest in landscape restoration and adaptation	Included in DPO under the reforestation targets of the green economy decree of Prior Action 9
Human Development	Human development to reduce climate risk & support green transition	Partially included in DPO through enterprise and community engagement in the green economy decree of Prior Action 9
Subnational development	Empower local governments for climate policy design and implementation	Included in DPO under locally informed climate adaptation planning in the green economy decree of Prior Action 9

ANNEX 7: OVERVIEW OF REFORMS SUPPORTED UNDER PREVIOUS DPOS

Sector	Reforms supported in previous engagements	Reforms being completed 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	• 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		• 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	• Creation of SOE reform agencies • Unbundling of vertically integrated national airline SOE • Increased financial transparency of energy SOEs	• Privatization of one of the largest chemical plant FerganaAzot • Unbundling of Uzkimyosanoat (UKS)	• Identification and transfer of all SOE shares to new agency and initiation of privatization process.

	• SOE reform framework to improve the performance of the largest SOEs • Identification of at least 15 percent of all SOEs to be fully privatized via a competitive process • New unified corporate governance legislation • New privatization law • Privatization of mobile telecommunications operator • Stricter regulations to enforce SOE's core business focus • Harder budget constraints on financially weaker SOEs	• Institutional restructuring and unbundling of Uzbekistan Railways (OTY)	• 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.	• 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	• Abolition of crop placement system for all crops	• A revival of agriculture growth and record horticultural exports • Estimated 1.2 percent of GDP increase in rural incomes from higher farmgate

	• Liberalization of bread prices • Ending mandatory cotton production targets for farmers, and all mandatory state cotton production surrender requirements • Full liberalization of wheat market		prices for cotton and wheat production • End of systematic forced and child labor
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	• Establishment of National Agency for Social protection to consolidate and strengthen the social protection system • Enactment of GBV law • Enactment of free legal aid 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.

	• 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		
Climate change	• None	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	
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

ANNEX 8: 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	World Bank Systematic Country Diagnostic for Uzbekistan (2022) (P171981); World Bank energy sector market development TA. World Bank Listening to the Citizens of Uzbekistan L2CU (2021) (P171949). World Bank Uzbekistan Innovative Carbon Resource Application for Energy Transition (iCRAFT) project (P180432).
Railway sector reforms	World Bank TA "Proposed Strategy for the Reform of the Railway Sector in Uzbekistan."
Chemical sector reforms	World Bank Recommendations for a National FDI Strategy and Roadmap for Uzbekistan (2022) (P176729); IFC Transforming Fertilizer Production and Uzkimyosanoat Joint-Stock Company (2021); IFC Competitive Neutrality of the Fertilizer Sector in Uzbekistan (2022); IFC State Support Measures in the Sector of Mineral Fertilizers in Uzbekistan (2022).
Agriculture Reforms	WBG 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); World Bank's Just-In-Time Policy Note.
Pillar 2: Improving Fiscal Risks Management and Public Procurement System	
Fiscal risk monitoring and reporting	World Bank Uzbekistan Second Public Expenditure Review (2022) (P173140); World Bank Uzbekistan PPP Agenda and Fiscal Framework Implementation Support (P500909)
Pillar 3: Supporting social inclusion and green resilience	
Creation of the National Agency for Social Protection	World Bank Public Expenditure Review (2022); World Bank/International Labor Organization/UNICEF Assessment of the Social Protection System in Uzbekistan (CODI) (2020).
Criminalization of Gender-Based Violence	World Bank Uzbekistan Country Gender Assessment (forthcoming 2023); World Bank Gender and GBV in Central Asia (2021), unpublished; Women, Business, and the Law (2023) Country Snapshot for Uzbekistan.
Expanding access to State-sponsored free legal aid	United Nations Office on Drugs and Crime, An Analysis of the Draft Law of the Republic of Uzbekistan on Free Legal Aid (2021).
Climate change and green economy	World Bank Climate Action Support ASA (P180449); WBG Country Climate and Development Report 2023 (P179068); Guidance Note on Uzbekistan National Green Taxonomy (2023); World Bank Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis) (P178522)
Climate and environmental institutions and air quality	WBG Country Climate and Development Report 2023 (P179068); World Bank Guidance Note for Uzbekistan Green Taxonomy (P177108 & P180499); Climate Change Institutional Assessment Report (2022); World Bank Air Pollution Assessment ASA (forthcoming 2023); World Bank Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis) (P178522)