



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 17-Aug-2018 | Report No: PIDISDSC25269

**BASIC INFORMATION****A. Basic Project Data**

| | | | |
|--|--|--|---|
| Country Uzbekistan | Project ID P168180 | Parent Project ID (if any) | Project Name Uzbekistan Institutional Capacity Building Technical Assistance Project (P168180) |
| Region EUROPE AND CENTRAL ASIA | Estimated Appraisal Date Oct 01, 2018 | Estimated Board Date Jan 23, 2019 | Practice Area (Lead) Finance, Competitiveness and Innovation |
| Financing Instrument Investment Project Financing | Borrower(s) Republic of Uzbekistan | Implementing Agency Ministry of Finance | |

Proposed Development Objective(s)

The Project Development Objective is to strengthen institutions towards improving public financial management and facilitating market-oriented operations of the corporate and financial sectors in Uzbekistan.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

| | |
|---------------------------|-------|
| Total Project Cost | 30.00 |
| Total Financing | 30.00 |
| of which IBRD/IDA | 30.00 |
| Financing Gap | 0.00 |

DETAILS**World Bank Group Financing**

| | |
|---|-------|
| International Development Association (IDA) | 30.00 |
| IDA Credit | 30.00 |



Environmental Assessment Category

C - Not Required

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Uzbekistan is at a critical juncture of its economic transformation, needing to urgently tackle a legacy of stark microeconomic imbalances while sustaining its macroeconomic stability. Real GDP growth has decelerated to an estimated 5.3% in 2017 (down from officially reported 7.8% in 2016). National poverty rate fell only slightly between 2016 and 2017 from 12.5% to 12.4% and Uzbekistan remains among the poorest countries in ECA.

After independence in 1991, Uzbekistan remained a closed, centrally-planned economy. In 2016, under leadership of President Mirziyoyev, the new administration embarked on an ambitious economic modernization program to reinvigorate growth for the benefit of all Uzbekistan's citizens. The Government issued its 2017-2021 National Development Strategy on February 7, 2017 (Presidential Decree No. 4947). It is a market oriented reform program with five priority policy areas: enhance state and public institutions, secure the rule of law and reform of the judicial system, promote economic development, foster social development and ensure personal and public security. The Government also restated its commitment to macroeconomic stability and improving the business climate.

Government has widespread support from citizens but expectations are high and demographic pressures present a major job creation challenge and a risk of radicalization if not addressed.

To date, Government has made significant progress towards social and economic transformation: reduced large economic distortions and avenues for corruption, reduced the state's large presence in the economy, liberalized prices and opened the economy to greater foreign and domestic private sector participation.

Sectoral and Institutional Context

Challenges:



Uzbekistan's current governance system and weak public-sector institutions present major cross-cutting development challenges to implementing an ambitious market-oriented reform. Public sector laws, regulations, approaches, and procedures need to be enhanced for market focused reforms to have the desired impact.

Lack of Transparency and Weak Accountability in the Public Sector: Uzbekistan has a highly centralized decision-making system. There is a need to better link performance appraisal of public officials and the quality of services they deliver to the population. More broadly, citizens, in turn, need more access to information on government policies and performance. The World Bank's Worldwide Governance Indicators consistently show that Uzbekistan has a lot of room for improving government effectiveness, public accountability, and transparency.

Large Presence of Ineffective and Inefficient State Owned Enterprises (SOEs): The Uzbek economy is dominated by state presence across all sectors. 38,000 SOEs generate approximately 50% of the country's GDP and provide 18% of official employment in the country. Poor performing and ineffectively governed SOEs drain limited budget resources, leading to both strategic and fiscal risks, sub-optimal capital investments and generation of high amounts of contingent liabilities. Many large SOEs create significant market distortion by bearing significant conflict of interest in acting both as regulators and policy makers thus creating obstacles to competition. SOE ownership function and executive decision making are embedded into the Government structure, restricting their autonomy and exposure to the market.

Heavy regulation and state dominance in the banking sector: The banking sector in Uzbekistan is dominated by public banks and is heavily regulated. The three largest public commercial banks hold about 80 percent of total sector assets. Directed lending at below-market rates accounts for about 65 percent of the loan portfolio of public banks, hampering profitability and affecting efficient credit allocation, as a large part is directed to SOEs. Furthermore, all banks in Uzbekistan are subject to cumbersome administrative regulations that increase banks' operating costs, further eroding profitability.

Response to Challenges:

The Government has initiated reforms to address these challenges and has requested World bank support.

Public Financial Management: The Government has committed to enhance the public financial management system and take steps to improve transparency, accountability, and performance of public sector. Law on Public Procurement has been enacted. A strategy to reform the public financial management system is expected to be adopted in September 2018 "to radically revise the system of public finances and increase the effectiveness of using budget funds . . . by introducing internationally recognized methods of budget planning, modern information and communication technologies and involving citizens in the management of public finances" (Concept Note on the Improvement of the public finances of the Republic of Uzbekistan, publicly disclosed for consultation on Government website in May 2018).



SOE Reform: Since 2017, the Government has taken initial steps to review the financial standing of the largest 25 SOEs (NAPM has recently completed detailed financial analysis of 7.) In addition, the Government is planning to separate the office of State Asset Management from the State Competition Committee to strengthen the State's role as an owner. Individual roadmaps to improve corporate governance and improve operational performance for the largest systemically important SOEs have been rolled out.

Financial Sector Reform: Financial sector reforms have been initiated to improve bank's operational efficiency, strengthen prudential supervision and enhance existing financial infrastructure. Presidential Resolution No. PP-3270 (September 12, 2017) specifies these measures.

Relationship to CPF

The project is aligned with the adjusted Country Partnership Framework (CPF) as articulated in the Performance and Learning Review (PLR) of the CPF for Uzbekistan for the Period FY19-FY21 (Report No. 126078-UZ). Specifically, the project directly supports two of the three focus areas of the adjusted CPF/PLR:

- (i) sustainable transformation towards a market economy and
- (ii) reform of state institutions and citizen engagement.

The project is part of a package of World Bank support to accompany the Government of Uzbekistan in keeping the momentum for the pursuit of an ambitious program of market-oriented reforms launched in 2017 that are unprecedented in the country's modern history. This project complements and provides the necessary technical assistance to the recently approved DPO – "Uzbekistan: Reforms for Sustainable Transformation toward a Market Economy" (P166019).

C. Proposed Development Objective(s)

The Project Development Objective is to strengthen institutions that will create conditions for: (i) enhancing fiscal discipline, operational performance, transparency and accountability of the public sector and (ii) supporting the transition to market economy through corporate and financial sector reforms and opening to global markets.

Key Results (From PCN)

To strengthen institutions

1. PS institutions operating in a more accountable and transparent manner in line with international standards or good practices

enhancing fiscal discipline, operational performance, transparency and accountability of the public sector

2. Medium-term planning and expenditure frameworks operational; incorporation of PPP pipeline into overall PIM; improved internal control, accountability and transparency framework of the public sector and SOEs; SAI implements public sector external audit functions in line with good



practices; improved PFM system according to PEFA assessments; SOE driven fiscal risks at manageable levels

supporting the transition to market economy through corporate and financial sector reforms and opening to global markets

3. Proper regulatory frameworks for SOEs and financial sector in place; increase in no. of firms using banks to finance investments; new \$ amount of private sector investments; increased share of exports in the economy; Proper regulatory framework for and enforcement of competition in place; PPP legislation and pipeline developed; reduced legal, economic and technical barriers to firm entry; improved Herfindahl-Hirschman index in key sectors

D. Concept Description

The proposed project has three key technical components and will primarily involve technical advisory (i.e., hiring of consultants), IT systems (software and hardware), training and workshops and operating costs. The proposed project will also have a fourth component for project management and just in time technical assistance.

Component 1: Enhance fiscal discipline, operational performance, transparency and accountability of the public sector. (estimated US\$11 million)

Proposed component activities will focus on: (i) strengthening fiscal policy framework and institutions through fiscal rules and managing fiscal performance, risks and liabilities; and (ii) strengthening public sector operations through public investment management (PIM) reform, budget reform, integrated financial management information system (IFMIS), public sector accounting reform, public internal control (PIC) reform, SOE governance reform, Supreme Audit Institution (SAI) Reform, Anti-corruption Initiatives.

Component 2: Create conditions for SOE restructuring and connection of Uzbek enterprises to the global economy (estimated US\$7 Million)

Proposed component activities will focus on: (i) reforming SOE Governance; (ii) levelling the playing field for SOEs and the private sector; (iii) developing a strategy for SOE restructuring and privatization; and (iv) building institutional framework & capacity; and connecting to the global economy.

Component 3: Create conditions for financial sector reform and restructuring of state-owned Banks (estimated US\$7 Million)

Proposed component activities will focus on: (i) enhancing the legal and regulatory framework for the financial sector; (ii) restructuring of State-Owned Bank (SOB) and privatization; (iii) supporting pilot privatization of one SOB; and (iv) improve financial infrastructure.

Component 4: Support to project management and just-in-time technical assistance (US\$5 Million including contingency of US\$0.5 Million)



Proposed component activities will focus on: (i) supporting the operations of the project support unit (PSU) in the Ministry of Finance; and supporting just-in-time technical assistance.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project will primarily involve technical advisory, purchase of IT systems (software and hardware), training and workshop. Project location is primarily Tashkent, the capital city.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Ministry of Finance which is the project's implementing agency has not been engaged in implementing World Bank-supported projects for more than a decade. As such, the agency may not be familiar with the World Bank Environment and Social Safeguards Policies. However, due to the nature of the project scope, the project will not trigger any of the safeguard policies.

C. Environmental and Social Safeguards Specialists on the Team

Kristine Schwebach, Social Safeguards Specialist
Gulana Enar Hajiyeva, Environmental Safeguards Specialist
Javaid Afzal, Environmental Safeguards Specialist
Odil Akbarov, Social Safeguards Specialist

D. Policies that might apply

| Safeguard Policies | Triggered? | Explanation (Optional) |
|--|------------|---|
| Environmental Assessment OP/BP 4.01 | No | Project will primarily involve technical advisory, purchase of IT systems (software and hardware), training and workshop. |
| Performance Standards for Private Sector Activities OP/BP 4.03 | No | |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/BP 4.11 | No | |
| Indigenous Peoples OP/BP 4.10 | No | |
| Involuntary Resettlement OP/BP 4.12 | No | |
| Safety of Dams OP/BP 4.37 | No | |



| | |
|---|----|
| Projects on International Waterways OP/BP 7.50 | No |
| Projects in Disputed Areas OP/BP 7.60 | No |

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Sep 20, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The project activities are not expected to trigger safeguard policies. Accordingly, no safeguard related studies are planned to be prepared.

CONTACT POINT

World Bank

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APPROVAL

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|----------------------|------------------------------|
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Approved By

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|---------------------------|-----------------|-------------|
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| Country Director: | Hideki Mori | 12-Sep-2018 |