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INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**PERFORMANCE AND LEARNING REVIEW
OF THE COUNTRY PARTNERSHIP FRAMEWORK**

FOR

UZBEKISTAN

FOR THE PERIOD FY16-FY20

May 29, 2018

**Central Asia Country Management Unit (ECCCA)
Europe and Central Asia
International Finance Corporation
Multilateral Investment Guarantee Agency**

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IsDB	Islamic Development Bank
ASA	Advisory Services and Analytics	JICA	Japanese International Cooperation Agency
CBU	Central Bank of Uzbekistan	MIGA	Multilateral Investment Guarantee Agency
CE	Citizen Engagement	MOE	Ministry of Economy
CMAW	Creating Markets Advisory Window	MSME	Micro, Small and Medium Enterprises
COP21	Conference of Parties 21	NDS	National Development Strategy
CPF	Country Partnership Framework	PER	Public Expenditure Review
CPI	Consumer Price Index	PEFA	Public Expenditure & Financial Accountability
CPSD	Country Private Sector Diagnostic	PFM	Public Finance Management
CSO	Civil Society Organizations	PIU	Project Implementation Unit
DPO	Development Policy Operation	PLR	Performance and Learning Review
ECD	Early Childhood Development	PPG	Publicly Guaranteed Debt
ECA	Europe and Central Asia	PPL	Public Procurement Law
FBM	Feedback Mechanism	PPP	Public-Private Partnerships
FDI	Foreign Direct Investment	SCD	Systematic Country Diagnostics
FSAP	Financial Sector Assessment Program	SDC	Swiss Agency for Development & Cooperation
GNI	Gross National Income	SDR	Special Drawing Right
GIZ	German Technical Cooperation	SME	Small and Medium Enterprise
GOU	Government of Uzbekistan	SOEs	State-owned Enterprises
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
ICT	Information & Communication Technology	TPM	Third Party Monitoring
IDA	International Development Association	UFRD	Fund for Reconstruction and Development
ILO	International Labor Organization	UN	United Nations
IFC	International Finance Corporation	UNDP	United Nations Development Program
IFIs	International Financial Institutions	USAID	United States Agency for International Development
IFS	International Finance Statistics	UZS	Uzbekistan SOM
IMF	International Monetary Fund	WBG	World Bank Group

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UZBEKISTAN

PERFORMANCE AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP FRAMEWORK

I. INTRODUCTION

1. This Performance and Learning Review (PLR) summarizes progress in the implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) for Uzbekistan for the period FY16-FY20 (Report No. 105771-UZ) and reflects the adjustments made to the WBG program going forward. The CPF's principal objective is to support the government's goals of accelerating the transition toward a private sector driven, market-based economy; generating up to 500,000 new, productive, and sustainable jobs annually; and achieving upper middle-income status by 2030.

2. Uzbekistan embarked late on the path to market-oriented economic reforms compared to other former Soviet republics. Until recently, the country remained a closed, centrally-planned economy, with growth largely driven by commodity export revenues that financed import-substitution industrialization. This was achieved through import barriers and restrictions to capital outflows, significant directed lending, as well as on- and off-budget subsidies, which supported a wide network of state-owned enterprises (SOEs) and a few private-sector participants. The economy was sustained by the commodities super-cycle, but with a deteriorating external environment, it became increasingly evident that the economic growth was not accompanied by productivity growth or sufficient high-quality job creation, leading to substantial outward labor migration. Following the commodity price shock in 2014, the lack of price flexibility (in exchange rates and domestic prices) led to the widening relative price distortions, and it became evident that existing economic policies were incapable of providing sustained productivity growth and good job creation to meet the needs of a growing and young population¹.

3. The country launched in 2017 an ambitious program of market-oriented reforms that are unprecedented in the country's modern history. In late 2016, Uzbekistan underwent its first leadership change since the country's independence in 1991. With the drivers of the old growth model exhausted, the new leadership embarked on a strong program of market reforms. The Government's *National Development Strategy for 2017-21 (NDS)* aims at transforming the country by liberalizing the economy, reshaping the role of the state in the economy, modernizing the agriculture sector, strengthening governance, creating markets, including in the financial services, enabling private sector growth, investing in human capital, and improving social protection and service delivery for all citizens. The Strategy, to be implemented over five years, is guided by an annual state program. The country's reform momentum has also created new opportunities for regional cooperation in Central Asia, including in energy, transport, water, and economic connectivity.

4. Public expectations are high and demographic pressures are mounting. The current process of social and economic opening has received widespread support from the population. Given the high expectations, the administration is under pressure to deliver results and show improvements in the lives of Uzbek citizens in the short term, especially as Uzbekistan is facing a major jobs challenge with a rapid rise of the working age population, which increased by some 50 percent since 2000, from 14 million to 22 million today.

¹ Uzbekistan's *Systematic Country Diagnostic* (SCD, WB report No. 106454), published in May 2016, highlighted the following key constraints to Uzbekistan's inclusive growth and shared prosperity: (i) **market distortions** undermining allocative efficiency and competition; (ii) **regulatory barriers** to firm operations preventing firm growth and formalization; (iii) **inefficient allocation of resources** (land, labor, capital) depressing agricultural productivity and rural incomes; (iv) **insufficient and inefficient infrastructure**, particularly connectivity, depressing competitiveness.

5. The significant changes in the country context warrant a realignment of the WBG program to better respond to the Government's bold reform program. The Government of Uzbekistan (GOU) regards the WBG as a trusted partner and as the lead advisor on economic reforms. The existing CPF continues to provide a valid framework as it emphasizes flexibility to respond to new and emerging opportunities. This PLR outlines the adjustments to the CPF against the background of the changes in Uzbekistan, and proposes to extend the CPF period by one year to FY21 to better capture the impact from the Government's reform program. It will adjust the focus of the WBG program to capture the new opportunities by focusing on: (i) Sustainable transformation towards a market economy, (ii) Reform of select state institutions and citizen engagement, and (iii) Investing in people.

II. MAIN CHANGES IN COUNTRY CONTEXT

Recent reforms and key macroeconomic developments

6. GOU has made rapid progress in implementing an impressive number of policy changes in a short period of time. The country's progress from a state-led economic system to a market economy entails four fundamental economic and social shifts: (i) *from the state to the private sector*, (ii) *from inward-looking to outward-looking growth and jobs drivers*; (iii) *from general government subsidies to targeted social programs*; and (iv) *from central government to regional and local authorities*, GOU has issued more than 190 decrees and laws in the last 10 months in support of transformational reforms to support political, economic and social shifts by initiating public service, judicial, educational and tax systems reforms; liberalizing the foreign exchange regime followed by price liberalization measures; strengthening the independence of the CBU; simplifying the visa regime; improving the investment climate and business environment; initiating important reforms in agricultural sector; scaling up anticorruption efforts and opening the GOU for dialogue with the public.

7. GOU is facilitating citizen feedback on the performance of public authorities and public services, and is exploring avenues to deepen decentralization. The President of Uzbekistan declared 2017 the "Year of dialogue with people and human interests" and the Presidential Administration organized a range of "Virtual Receptions" to solicit feedback from citizens. The NDS includes actions to promote feedback on service delivery, improve data sharing with public and consultative policy-making bodies, delegate more authority to the local level, and introduce elections for local officials. Steps laid out in the NDS are increasing civil society participation, strengthening citizens' self-governing bodies, using press and media to raise issues related to public service provision, and even initiating dialogue with both domestic and foreign human-rights activists. Most recent developments include the possibility for individual citizens to submit petitions to President's so called "virtual receptions," as well as the launch of an online petition platform in April 2018 called *Mening Fikrim* (My Opinion), enabling submission of collective petitions, easing registration and operation requirements for CSOs, and establishing an Advisory Council on CSOs in May 2018. The shift towards an open dialogue with the population, as well as emerging signs of increased media and CSO freedom, have helped establish and operationalize channels for public feedback, particularly on service delivery issues, yielding encouraging results in a short period of time.

8. GOU liberalized the exchange rate, shifting monetary policy to a tightly managed-float using market mechanisms thereafter. On September 5, 2017, the authorities converged the official exchange rate from 4,210 UZS per dollar to the curb rate, 8,100 UZS per dollar, and abolished the surrender requirements of hard currencies earned on exports. As a result, the large parallel foreign exchange rate premium was eliminated. This move not only reduced large economic distortions in the economy and avenues for corruption, but was also a key signal of the Government's commitment to

reform. The CBU has since announced its intention to eventually move toward inflation targeting and an increasingly floating exchange rate regime. To avert a potential inflationary spiral following the exchange rate liberalization, the CBU tightened monetary policy in June 2017, raising the policy rate from 9 percent to 14 percent, curbing credit growth sharply (from a monthly rate of 5 percent per month to just 0.5 percent). The government also preemptively recapitalized 12 banks through two separate injections for a total of around US\$700 million. The independence of the Central Bank of Uzbekistan (CBU) was also enhanced.

9. GOU is taking measures to create an environment that is conducive to private sector growth.

Steps have been taken to establish commodity exchanges to help promote free market price determination of various products, and there are plans to improve trade facilitation mechanisms. New legal frameworks to promote competition and private investment are being developed, and work is ongoing to improve and simplify the tax system and tax administration procedures.

10. The authorities have committed to enhance their Public Financial Management (PFM) system, and are taking steps to improve transparency, accountability and performance of the public sector, including SOEs. The long-awaited Law on Public Procurement based on best international practices was approved. GOU has also taken steps to strengthen and expand the social protection system to better support lower income and vulnerable households as well as displaced workers from SOEs, who might be negatively affected by the implementation of economic reforms. Labor institutions and regulation are being adjusted to facilitate the retraining of displaced workers and their mobility across sectors as well as to promote firm employment growth.

11. Uzbekistan's commitment to regional cooperation is changing the regional landscape in Central Asia and beyond. GOU's social and economic transformation is creating regional opportunities for improving energy, transport, water, digital and economic connectivity. Flights between Uzbekistan and Tajikistan have resumed and cross-border traffic and trade with neighbors are on the rise. Uzbekistan, a double-landlocked country, is discussing the construction of a greenfield railway line with the Government of Afghanistan, which would provide Uzbekistan and Afghanistan access to the sea, and could connect to China via the proposed Uzbekistan-Kyrgyz Republic-China railway link, which is under discussion as part of the Belt and Road Initiative. The decision to reconnect the Central Asia power grid and Uzbekistan's changed stance over new hydropower projects in Tajikistan and Kyrgyz Republic are additional positive developments on the regional landscape.

Macroeconomic Developments

12. Recent economic performance in Uzbekistan has been the result of an improved external environment, a legacy of imbalances, and the beginning of the transformation of the country's macroeconomic policy framework. Real GDP growth decelerated to an estimated 5.3 percent in 2017, down from the officially reported 7.8 percent in 2016, reflecting the growing strains of macroeconomic imbalances and a history of official policies that constrained private sector dynamism. The improving external environment, the announcement of the reform program, and the much-needed exchange rate adjustment at the end of 2017 helped net exports to recover as a growth driver. Both fiscal and monetary policies have been supportive of the economic reform; low public debt, an external current account surplus and large international reserves have facilitated the transition.

13. Uzbekistan's growth prospects are expected to remain broadly favorable, but there are risks related to this phase of economic transformation. The baseline scenario projects a slight deceleration of growth to 5 percent for 2018 and 2019 as reforms are implemented, while support of private-sector investment and export-oriented growth will reignite overall economic growth in 2020 to 5.5 percent, as transitional adjustments stabilize.

14. External accounts are expected to remain stable over the medium-term, even as the structure of the balance of payments changes in the context of a more open, dynamic domestic economy. While the current account surplus improved significantly last year, it should moderate over the medium-term as imports of capital and intermediate goods pick up, mirroring a solid capital and financial account backed by growing FDI and lending from IFIs, among other sources of foreign finance. On balance, Uzbekistan should be able to maintain its already comfortable external buffers.²

Table 1: Uzbekistan: Key Macroeconomic Indicators and Projections, 2014-2020

	2014	2015	2016	2017e	2018f	2019f	2020f
Real GDP growth, %	8.1	7.9	7.8	5.3	5.0	5.1	5.5
GDP per capita (US\$)	2,050	2,124	2,094	1,491	1,239	1,449	1,526
CPI inflation (official eop), %	6.1	5.6	5.7	14.4	16.9	10.1	8.2
CPI inflation (IMF estimate, eop), %	9.3	8.4	7.9	18.9	16.9	10.1	8.2
Credit to private sector ³ , % change	25.3	23.3	28.4	103.0	24.5	15.2	17.6
Broad money (M2), % change	16.0	24.2	23.5	40.3	19.0	17.9	17.9
Monetization ratio (M2/GDP), %	23.4	24.5	26.2	29.3	27.6	27.2	27.6
Augmented budget bal. % of GDP	2.0	-1.3	-0.6	-3.3	-1.3	-1.4	-1.4
Exports (% of GDP)	19.4	15.0	14.2	21.7	29.0	25.2	27.5
Imports (% of GDP)	19.4	16.2	16.7	22.6	33.5	30.1	33.2
Total Public and Guaranteed (PPG) Debt, US\$ bln	6.9	6.2	7.0	11.7	8.1	10.1	11.2
Trade Balance (% of GDP)	0.0	-1.2	-1.5	-0.9	-4.5	-4.9	-5.2
Current account balance, % of GDP	1.7	0.7	0.7	3.7	0.2	-1.0	-2.7
FDI, net (% of GDP)	1.0	1.3	1.5	2.0	2.5	2.3	2.9
Gross official reserves (US\$ billion)	24.2	24.3	26.5	28.1	28.9	28.9	28.4
Gross official reserves, months of imports	18.0	21.0	22.1	18.8	18.0	16.4	15.3
Exchange rate SOM/USD	2,422	2,809	3,231	8,120			

Source: IMF and World Bank.

15. Fiscal policy will be critical in stabilizing the economy over the medium-term. With financial markets and the CBU's stabilization capacity still developing, fiscal policy will shape aggregate demand. Given high uncertainty about the short-term path of real growth as reforms seek to free and reallocate resources across the economy, a prudent fiscal stance—including on- and off-budget operations—will be key in stabilizing future inflation. The authorities are committed to keeping a prudent fiscal stance, measured by the augmented balance that captures UFRD's operations. Risks still stem mainly from the off-budget activities, which may not be fully transparent nor entirely predictable; the Government plans to improve transparency by bringing all its operations on-budget in 2019. The authorities are also committed to tax reform—which is needed to stimulate job creation and to preempt the future decline in revenue collections from SOEs which would need to be revenue-neutral and gradual, to avoid undermining the fiscal stance. While public debt has edged up somewhat in recent years, it remains on a sustainable path; debt vulnerabilities are also ameliorated by the Government's ample reserves.

16. The risk of debt unsustainability is low. The joint Bank-Fund Debt Sustainability Assessment (DSA) for Uzbekistan (published with the IMF's Article IV Consultation in May 2018) suggests the following results:

² International reserves currently stand at over US\$28 billion, corresponding to nearly two years of imports in goods and services. External debt outstanding is well contained at about 32 percent of GDP.

³ Including the credits to SOEs.

- **Public debt.** The Public and Publicly Guaranteed Debt (PPG)-to-GDP ratio is expected to remain comfortably below 30 percent of GDP for the next 10 years under a baseline scenario. This debt level is relatively low by international standards for a lower-middle income country with a medium level of Government capacity in macroeconomic and debt management.
- **Total external debt.** The overall stock of external obligations (including PPG) is also envisaged to remain sustainable. The DSA shows that total external debt will be well-contained at under 40 percent of GDP over the next decade under the baseline. While the exchange rate devaluation triggered an increase in the external debt service-to-exports ratio in 2017, the external debt service payments are expected to hover at under 20 percent of export revenues, and well-covered by the projected overall reserve buffers.⁴

17. Fiscal risks from contingent liabilities associated with SOE debt are closely monitored by the Ministry of Finance (MoF), and corrective actions are taken quickly every year to mitigate such risks. Uzbek public companies and banks have access to external borrowing without explicit Government guarantees, and their financial performance is monitored by the MoF. As a result, risks associated with contingent liabilities appear to be limited and manageable, including thanks to Uzbekistan's large fiscal buffers. Over the longer term, bringing large SOEs into cost recovery and financial sustainability will be critical to enhance fiscal and debt resilience.

18. Comprehensive measures to improve performance of the SOEs are needed to contain fiscal risks. Understanding the true financial position of SOEs in the country is a complex task given the lack of transparency and modern financial reporting and auditing arrangements, and considering the fact that the SOEs are often large holding companies, which span across various sectors with obscure intra-company transactions. The SOE corporate governance environment as well as the state ownership and monitoring functions are also weak and ineffective. The IMF has preliminarily estimated the total losses of the SOE sector from the foreign exchange rate liberalization at about 17 percent of GDP.

19. Inflation remains an important risk and underscores the need to build a strong monetary policy framework. In 2018, with the full effects of the September 2017 exchange rate devaluation materializing and a broad price liberalization, inflation may persist. While the baseline assumes sustained prudent monetary policy that allows for gradual return to lower inflation, risks include not only external shocks that may make this process more protracted, but the reliance on ad-hoc tools (such as discretionary price ceilings to soften price impacts on consumers) that do not provide sustainable anchors to avoid inflation and may prevent the needed relative price adjustments from taking place. These measures may also be incompatible with ensuring the financial viability of both SOEs and private companies. Going forward, anticipated price increases in several sectors of the economy (including energy) may fuel inflation expectations; in this context, the credibility of both fiscal and monetary policy will be the main countervailing factor.

Changes to poverty reduction and shared prosperity

20. While Uzbekistan has been able to reduce poverty in recent years, it remains among the poorest countries in ECA. The national poverty rate fell only slightly between 2016 and 2017, from 12.5 percent to 12.4 percent. Nearly 4 million people were estimated to live below the national poverty line in 2017.⁵

21. The World Bank is helping the Government institutions gain deeper understanding of the poverty dynamics and the key characteristics of poor and vulnerable households as well as those

⁴ External public and PPG debt has been serviced fully and there are no external arrears, including by SOEs.

⁵ These are national official poverty estimates have not been independently validated by World Bank experts.

at risk to fall into poverty. Specific assistance rendered to the GOU includes: (i) updating of the methodology to define the minimum subsistence level and the minimum consumption basket, (ii) assessing the existing risks and vulnerabilities of the poor and near poor population, (iii) developing an in-depth continuous monitoring of household wellbeing through the Listening to the Citizens of Uzbekistan (L2CU) household survey data collection, together with the Center for Development Strategy and (iv) developing a targeting system to accurately reach the poor and vulnerable. With difficulties accessing official household survey data for poverty measurement, the Bank is in the process of collecting qualitative data (through focus groups and key informant interviews) to assess the household exposure to risks, as well as informal and formal mechanisms to reduce, mitigate, and cope with risks.

22. Market liberalization policies could have adverse distributional effects, and their fuller understanding is essential to identify mechanisms to mitigate them. Despite being one of the key objectives of the state-led growth strategy, providing advantages to SOEs is an inefficient means of redistribution, and is likely regressive on net. But while reducing support to SOEs may improve allocative efficiency in the economy and support higher long-term economic growth, reform may negatively affect some at risk groups. For instance, if complementary regulatory and institutional reforms that support competition and private sector development are not in place, there could be adverse distributional impacts. Sector-specific reforms may also entail moderately negative impacts on vulnerable populations, for instance, from rising utility tariffs, or for portions of the agricultural sector that struggle to transition.

III. SUMMARY OF WBG PROGRAM AND CHALLENGES

23. While the GOU's reform program has grown in scope and ambition since the CPF was prepared, high-quality job-creation remains a critical objective. The re-aligned WBG program responds to GOU's broadened reform agenda by focusing on projects and activities that support private sector growth and the creation of markets, promote institution and capacity building to support the reform process, and enable the economic and social transformation. The scope of WBG involvement has substantially increased at the request of the authorities, but will remain focused on areas where the WBG has a competitive advantage and can provide value-add. The World Bank program is shifting from pure bricks-and-mortar infrastructure projects to policy support and market institution building, horticulture development, social protection, early childhood development, regional development, and connectivity. Current and future infrastructure investments will help pave the way for sector reforms. IFC is refocusing its strategy to support the privatization process, enhance corporate governance, continue the transformation of the cotton sector, deepen and diversify the financial sector, including with the development of the microfinance sector and capital markets, and develop an enabling environment for PPPs in support of infrastructure development. Furthermore, the ongoing WBG Country Private Sector Diagnostic (CPSD) will help to identify constraints to creating markets and unleashing private investment in select sectors. Going forward, the WBG program will keep a degree of flexibility to be able to respond to changed circumstances.

24. In early stages of reform, at the request of GOU, the Bank prepared a Reform Roadmap for the first 12 months of reform that outlines key areas, prioritization, and sequencing. This was part of the Bank's response to the Government's request to play the lead advisor role on reforms. The Roadmap is based on the NDS and the SCD, and prioritizes the implementation of measures to: mitigate near-term macro-fiscal and financial risks; foster early gains from private sector activity, and enhance social protection mechanisms to mitigate the social impacts of economic reforms and ensure their sustainability through labor policies and regulation that promote job creation. The reach of the

Reform Roadmap is broad and reflective of GOU priorities. It offers short and medium-term steps in eight areas: (i) Coordination and communication; (ii) Fiscal, monetary and exchange rate policies and institutions; (iii) Financial sector reform; (iv) Subsidies and social reform policies; (v) SOE reform; (vi) Market development and fostering private sector participation; (vii) Agricultural sector development; and (viii) Public sector reform.

25. The Advisory Services and Analytics (ASA) include core diagnostics work, such as a Public Expenditure Review (PER), Public Expenditure and Financial Accountability (PEFA) assessment, Financial Sector Assessment Program (FSAP), and sector strategies for agriculture, education, transport, energy and water, as well as specialized tasks that are needed to prepare reforms, such as tax policy and administration reforms, public procurement reform, banking and capital markets development strategies, trade and investment climate, modernization of agriculture and food sector, poverty and vulnerability mapping, and piloting citizen engagement.

26. The realignment of the WBG Program takes into consideration transition lessons from other countries. Global experiences, including from transition countries and economies in Asia, offer a broad range of important lessons that may be relevant to Uzbekistan during the process of economic and social transformation. In particular, moving to a more market-based economy will require a new role for the Government and deep reform of the public sector, which will take time to complete. Learning from the experience of transition economies, the Government is focusing early on the real economy and on external markets, in particular, unleashing the potential of sectors such as agriculture to allow a new private sector-led economy to emerge while dealing with the “old” economy. Experience from other countries also suggests the importance of pursuing SOE reforms with attention to competition policy, and a solid regulatory framework along with price liberalization. The SOE reforms should be developed in parallel with any privatization efforts since experience suggests that such reforms are crucial to the success of the privatization process itself which should be transparent, homogenic in procedures and carefully paced. Financial sector reform needs to proceed along with reform of non-financial sector SOEs. For example, China introduced several measures in the early 2000s to reform the banking sector and to allow the development of the formal private sector. Finally, Uzbekistan’s demographic challenge offers a window of opportunity to realize its longer-term aspiration of achieving upper middle-income country status. If successful, Uzbekistan would follow in the footsteps of economies in East Asia that capitalized on similar demographic windows of opportunity in the past.⁶

27. The WBG is coordinating closely with other development partners. The WBG has established close partnerships with the multilateral and bilateral development partners (ADB, EU, IsDB, UK, Korea, Japan, Hungary and Switzerland) in Uzbekistan, through coordinated technical Assistance (TA) and joint or parallel financing of investment operations in agriculture, energy, transport, water supply and sanitation, and water resource management. In addition, the WBG closely collaborates with the EU, US and Switzerland through the Multi-Donor Trust Fund to support activities related to the prevention of child and forced labor in Uzbekistan. The WBG is also actively exploring opportunities to engage with new partners, such as the Asian Infrastructure Investment Bank and the European Investment Bank. Coordination is also undertaken by the UN through the United Nations Country Team, in which the Bank participates. GOU and the UN Agencies have recently signed a UN Development Assistance Framework for 2016-2020, which puts the WBG in the lead of several key thematic groups. GOU has started engaging development partners in a more systematic manner, including through the development partners’ coordination meetings and the newly established liaison

⁶ IMF Country Report No. 18/117, Uzbekistan Article IV Consultation, May 2018

position within the Cabinet of Ministers to lead, complement and oversee the existing formal and informal sectoral coordination groups.

Challenges

28. The diagnostic outlined in the SCD and the focus areas of the CPF remain broadly valid.

They prioritize a number of areas that are likely to drive inclusive and sustainable growth and are part of this PLR: (i) removing market distortions undermining allocative efficiency and competition; (ii) removing regulatory barriers to firm operations; (iii) promoting a reallocation of land toward more productive uses; (iv) mitigating spatial inequities in access to social services; (v) promoting sustainable use and management of natural resources; (vi) making public administration more transparent and accountable; (vii) widening access to pre-primary and tertiary education (as well as quality issues overall); (viii) ensuring access to quality health care; and (ix) addressing inefficiencies in social protection programs.

29. The availability of data to inform economic policy making has improved since the CPF was prepared, but remains overall a fundamental challenge, as does the capacity for evidence-based policy making.

In September 2017, GOU mandated the dissemination of economic and financial data. In January 2018, the Statistics Committee began publishing a new consumer price index based on an updated methodology, consistent with that of the IMF. The government has also agreed to participate in the IMF's enhanced General Data Dissemination System (e-GDDS), and started posting a National Summary Data Page with key economic, financial, and social statistics in May 2018. Ongoing work includes efforts to improve balance of payments statistics, monetary reporting and financial soundness indicators, and to compile Uzbekistan's International Investment Position. Moreover, the CBU, Ministry of Finance, and the Statistics Committee are preparing a roadmap for improvement of statistics that is scheduled for release in November 2018. The Statistics Committee is working to improve the quality and range of national accounts data. Going forward, the Government is planning to upgrade labor market statistics, including the collection of household survey data.

30. Careful management of macroeconomic policies is needed to properly anchor the reform.

After an initial uptick in prices following the exchange rate depreciation and first round of utility tariff and fuel price increases in late 2017, inflation has remained high.⁷ Keeping inflation under control will then require restraint in monetary and fiscal policies—including the off-budget operations. A high inflation process poses risks to the social and fiscal sustainability of the reform program.

31. With many sectors still ill-prepared to respond adequately to market price signals, there is an urgent need to identify and lift key constraints so that concrete gains can be achieved. The 2016 SCD calls for tackling the lack of responsiveness of the economy to price signals, which will require shrinking the large state footprint in the supply of most goods and services in the economy, as well as ensuring that the nascent institutional frameworks being developed are truly designed to enable the operation of market-based mechanisms.

32. The implementation of the ambitious market-oriented reforms will require fundamental changes in GOU institutions. The country's changing governance system and weak public-sector institutions present major cross-cutting development challenges. First, GOU will need to build new market institutions (such as fiscal, tax, competition etc.) and reform the SOEs. Poor performing SOEs that have a dominant role in the economy create obstacles to competition in the marketplace. Second,

⁷ Following the currency depreciation of 50 percent in September, immediate price adjustments were reported on the range of 20-70 percent. Price dynamics, however, show a sustained and strong upward trend, current estimates suggest that annual inflation will be under 20 percent for by end-2018 under a prudent macroeconomic policy framework.

public sector performance suffers from poor access and availability of information on government policies and performance, centralization of decision-making and insufficient delegation, absence of an adequate accountability framework, weak results-based management in public service delivery, poor control of corruption (as measured by global indicators), and insufficient skills of public officials. These issues need to be addressed to reduce institutional barriers to growth.

33. Lack of international competitiveness represents a huge opportunity cost, given the prospects for development of trade. Inefficient cross-border and customs clearance procedures cause serious barriers to further development of trade in Uzbekistan. While there is a national strategic focus on export competitiveness, greater investment is needed in quality infrastructure to ensure Uzbek firms can meet the standards required in target markets. Further to this, the current anti-monopoly and market regulation framework does not effectively safeguard competition. Ex ante pro-competition sector regulation is not sufficiently well-developed to prevent or tackle the exercise of significant market power. Corporate governance reform and greater transparency and adherence to international product, process and environmental, social and governance standards are needed to open market opportunities in horticulture and agri-processing, in particular.

34. A sound financial sector that may mobilize and allocate domestic savings in the economy to support private sector activity is lacking. The banking sector has very heavy public participation, with its funding largely based on public resources, while domestic deposits by the private sector are low. Moreover, credit allocation is mostly reliant on directed lending practices (a form of off-budget fiscal activity). Existing exposure to large and weak SOEs further complicate the picture. Transforming the banking sector into an open, competitive, market-based system that does not rely on subsidized funding and allocates credit based on commercial rationale will be essential to set a platform for a healthy development of the private sector more generally.

35. Uzbekistan continues to face significant challenges in the energy sector that need to be addressed, including: (i) diversifying the country's energy-mix away from natural gas, which is rapidly depleting; (ii) revamping the obsolete energy supply infrastructure; (iii) improving energy efficiency; (iv) meeting the large investment financing needs; and (v) enhancing energy trade with the neighboring countries to optimize efficiency in the use of resources. The Government has embarked on important steps to reform the energy sector SOEs. Given the country's significant potential in clean energy, and its strategic location, setting up an enabling environment would allow private investment in the electricity sector, including in clean energy development, and has the potential to transform the sector.

36. The economic reforms may lead to unintended negative social impact and job losses, resulting in possible increased poverty and vulnerability. While the potential benefits of reforms are large, some groups of the population are likely to be adversely affected during the transition as lower purchase capacity and potential job losses are expected. The implementation of economic reforms is expected to lead to income losses due to increased consumer prices and lower purchase power, and to job losses due to firms' downsizing and closing. This may result in some increase in poverty rates if social protection or social insurance is not available to mitigate the impact of labor income losses. These effects are expected to be more severe for lower income families who have less flexibility to adjust to price increases and income losses. If well designed and implemented, social protection policies and programs could be an effective mechanism to address these challenges by providing timely and adequate income support to the segments of the population most in need.

37. Citizen engagement in the decision-making process needs to be improved and downward accountability lines strengthened to ensure success of the reform process. While GOU has clearly articulated its commitment to citizen engagement and public accountability, the implementation of this

policy at the regional and local levels has been uneven. GOU is recognizing that local and regional officials often lack knowledge, capacity and authority to operationalize proposed engagement processes, and that a rebalancing of responsibilities and accountability from central to regional and local governments is needed. Second, most mechanisms are currently focused on a case-by-case complaint resolution – citizens’ complaints do not yet directly inform concrete policy or procedural change. Third, while the complaint resolution mechanisms have become highly popular, open and transparent public discourse on systemic challenges and needs is still limited, and the public service performance requirements and standards are not transparent.

IV. EMERGING LESSONS

38. There is a need to better align and synchronize the Government and Bank processes and procedures at all stages of the project cycle. Program implementation remains a challenge across the Bank portfolio, characterized by delays in project effectiveness, protracted procurement, and weak implementation capacity. As of May 2018, disbursements are at 7.0 percent with six problem projects in the portfolio. Major structural and personnel changes within GOU, the introduction of new procedures requiring additional clearances of project related documents and registration of contracts have negatively affected the implementation of programs supported by all international financial institutions, including the WBG, and have also caused delays in approving privatization projects supported by IFC. In response, the Bank has intensified its efforts to improve portfolio performance, including by signing a Framework Memorandum of Understanding with GOU, to enable an early warning mechanism for misprocurement, providing hands-on support to implementing agencies and delivering project management and procurement training to the PIUs and government agencies. Additional measures include regular joint portfolio reviews and just-in-time interventions, along with portfolio deep dives and quarterly portfolio reviews. Going forward, the Bank team will continue looking into restructuring/cancellation/closing of non-performing projects to ensure a good use of funds. Implementation support was strengthened by expanding the presence of senior procurement, financial management, and global practice staff in the Uzbekistan country office.

39. WBG assistance will need to be flexible and tailored to the evolving Government needs and reform agenda. Given the ambition of the Government and the necessity to adapt as reforms progress, the Bank will need to adjust its program in line with the evolving needs, including mobilizing additional resources when needed. At the same time, the GOU reform program will need to stay focused and well prioritized and accompanied by robust implementation before embarking on new initiatives. The need for institution building was only recently recognized by GOU; significant external assistance for institution and capacity building will need to be mobilized rapidly.

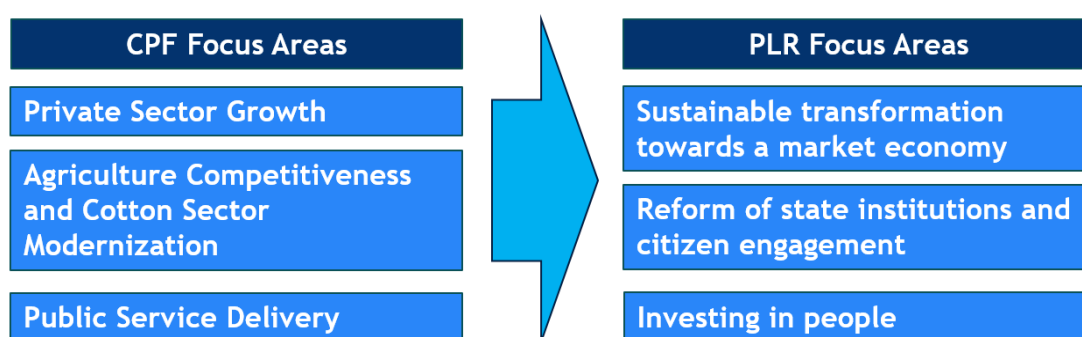
40. Close collaboration within the WBG is essential to achieve results in the key areas of the reform agenda. IFC and the Bank are working jointly in reforming the cotton sector, and collaborate closely in the energy sector, where WBG teams presented to the authorities a joint view for sector reforms and recommendations for attracting private sector in generation (both - renewable and conventional). Going forward, new avenues for joint IFC/World Bank collaboration will be systematically explored to offer synergies in support of the WBG program implementation and of GOU’s market creating reforms.

41. The capacity to implement reforms and reform coordination is one of key success factors. Government institutions are struggling to keep up with the course adjustment taken by the Government, and this is reflected in all reform areas. All WBG programs will have to include some aspect of capacity building, in order to equip the government institutions with awareness,

knowledge and skills to prepare and implement reforms. This may include, where necessary, building some new institutions from ground up, and coordinating with the other development partners to strengthen the reform coordination mechanisms, so as to avoid gaps or duplication of work. To create the basis for informed decisions, WBG teams will include generation and analysis of data in all relevant Bank interventions under each focus area.

V. ADJUSTMENTS TO THE CPF AND FUTURE ENGAGEMENT

42. Whereas the CPF foresaw a gradual economic reform process in line with government priorities at the time, this PLR takes into consideration the new government commitment to a faster, deeper and broader program of social and economic reform. The adjustment is reflected in the PLR, which adapts the focus areas of the CPF (Private Sector Growth, Agriculture Competitiveness and Cotton Sector Modernization, and Public Service Delivery) to the changed circumstances. The modified focus areas are depicted in the diagram below.



43. The choice of new focus areas reflects the change in depth and focus of the WBG program. The PLR *Sustainable Transformation Towards a Market Economy* focus area encompasses the CPF pillars focused on private sector growth and agriculture competitiveness and will also include broader market reforms. The previous focus area related to public service delivery will now be part of the PLR *Reform of State Institutions and Citizen Engagement* focus area that will deal with deeper institutional reforms and support citizen engagement. The PLR *Investing in People* focus area will support the establishment of a social protection system to protect the vulnerable during the transition in addition to supporting investments in health and education.

44. The implementation of this deeper and more focused program is expected to bring stronger results than those outlined in the CPF. For example, in the real sector, it is expected that the diversification of the agriculture production will develop faster and that the export of this type of products will significantly increase over time. It is expected that the subsidies to SOEs will be reduced which will decrease fiscal risks and provide more stable macroeconomic environment. Coupled with the expectation that the banks will be able to respond quicker to the demands, it will create more conducive environment for development of the private sector development and foreign and domestic investors. New social programs will establish a comprehensive social registry and improve targeting of social protection benefits. Complemented by an improved access to quality education, these measures are expected to facilitate entry and re-entry of skilled labor force into the economy, while protecting the most vulnerable.

45. The adjustment of the WBG program will open the possibility to expand the array of WBG instruments, including those that have not been previously utilized in Uzbekistan or have been absent for a long time. The WBG has already prepared the first Development Policy Operation, and will explore the use of such instruments as PforR, Partial Risk Guarantees (PRG), Policy Based Guarantees (PBG) or Deferred Drawdown Option (DDO) in the future. The GOU is also exploring Reimbursable Advisory Services (RAS) in a few areas where it wants to move very quickly: (i) aviation sector reform; (ii) establishment of an Economic Reform Advisory and Coordination body; and (iii) capacity building of the State Investment Committee.

46. A well-coordinated “One WBG Approach” is fundamental in creating new opportunities for private sector development and to Maximize Finance for Development (MFD) in Uzbekistan. Close collaboration on the overall program and the preparation of WBG business enabling policy engagements will help ensure the right sequencing of reforms and upstream policy work much needed to address issues constraining private sector development.

47. IFC, depending on Government’s continuous commitment to reforms, can play a catalytic role in supporting the Government with its ambitious economic transformation agenda. IFC will use the results of the ongoing CPSD as a tool for the strategy formulation in three sectors selected for deep dives: horticulture, (air) connectivity and chemicals/fertilizers. IFC will engage different stakeholders, including the government, private sector, customers, and other beneficiaries as well as key development partners in a focused policy dialogue to address relevant constraints. IFC will also explore engagement opportunities across other areas, including in telecoms, retail, hospitality, construction materials and pharmaceutical sectors where business activity shows signs of growth and potential. IFC will also leverage strategic use of IDA’s CMAW in support of agribusiness development, privatization efforts, and increased private sector participation in infrastructure.

48. MIGA would consider utilizing political risk insurance guarantees for eligible cross-border investment projects into Uzbekistan. At present, MIGA has no outstanding exposure in Uzbekistan. MIGA is prepared to apply its guarantees to eligible foreign direct investment projects strongly aligned with the CPF and the realigned WB program, either on its own or complementing WB and IFC. By supporting the foreign private sector, MIGA guarantees can help in rebalancing the economy in favor of greater private sector involvement, increasing foreign direct investment, stimulating job creation and building competitiveness. Improvements in governance and removal of any remaining currency convertibility restrictions would help define a more conducive business environment and increase its appeal for foreign investors. MIGA will consult closely across the WBG to ensure that candidate projects are aligned with the advisory work and sector strategies.

Focus Area 1: Sustainable transformation towards a market economy

49. The adoption of market economy principles and private sector development remain essential to meet the government’s growth and job creation goals. With the previous model of state-dominated investment and growth no longer sustainable, private enterprises will increasingly become the drivers of job creation and growth. The private sector remains constrained by several factors, including under-developed financial markets, an overly complex regulatory environment, and the uneven transition to a market-based economy. Focus Area 1 is built around five objectives: (i) enhanced economic growth and transition towards a market economy; (ii) improved regulatory environment for business; (iii) strengthened access to finance and financial services for the private sector; (iv) improved diversification of agriculture production; and (v) improved efficiency of infrastructure service delivery, including through PPPs.

Deepening market reforms by reforming macro and structural institutions.

50. The WBG will help GOU to build a solid foundation of a market economy by addressing its key components. To make the economic growth sustainable, it will support the key market and structural reforms, including macro-fiscal stability, building modern fiscal institutions (tax and public financial management systems) and a market-based financial system, trade liberalization, and SOE reform. It will also support creation of markets through policies that would facilitate private-sector activity by fostering competition, domestic and foreign investment. To mitigate the impact of reforms on the population, it will focus on protecting vulnerable groups through enhanced social safety nets, and improved labor regulation to facilitate the mobility of workers from low to high-efficiency sectors as the reallocation of resources in the economy takes place and to promote formal job creation. These reforms will be supported through the proposed Development Policy Operations (DPOs). In this context, IFC can play a catalytic role in supporting GOU with its ambitious economic transformation agenda, including through the ongoing CPSD and by working closely with the World Bank on supporting the privatization process for select SOEs.

51. In support of the Government's efforts to scale up private sector participation in the economy, and provided that the favorable political and reform context continues, IFC, in close collaboration with the Bank and MIGA, can help to facilitate an efficient and transparent privatization process for select SOEs by providing pre-privatization advisory in the financial sector, as well as potential post-privatization financing in real sector companies, including in chemicals, where in the fertilizers subsector in particular, Uzbekistan carries a great competitive advantage all raw materials required for the production of fertilizers are available locally (natural gas, potash, and phosphate). Furthermore, IFC can also help by providing transaction advisory services related to PPP in regulated areas such as, energy, transport, tourism, as well as in the health sector, where IFC has a strong track record, depending on an operational PPP framework being in place.

Addition of Financial & Banking Sector Reform

52. GOU's new openness to policy reform permits a substantial broadening of the WBG's support for financial sector reform and development. GOU and CBU have asked the WBG to become its main partner in reforming the financial sector, specifically as concerns the sector's transition to a market-based system. The WBG has begun developing a new stress-testing methodology to measure the vulnerability of banks to external shocks, and applied the new methodology to four representative banks. Similarly, the WBG has assisted the CBU with revising three key prudential banking regulations (on capital, liquidity, and asset classification) and has begun work on three others (on risk management, governance, and onsite inspections). GOU and CBU have additionally requested WBG advice on rewriting its banking law, amending additional regulations, transitioning to the Basel III regulation and supervisory framework, and drafting a national financial sector development strategy (including a strategy for the state-owned banks). These and other policy areas that may arise during implementation will be supported through the DPOs, advisory services and TA and the proposed Institution Building Loans. An FSAP to inform the financial sector reforms is also being planned for FY19/20.

53. To enhance financial inclusion, the CBU has requested IFC's support to develop a commercially sustainable microfinance industry and digital finance infrastructure. IFC is planning a feasibility study on microfinance and diagnostics of digital finance services. IFC is open to support selected privatizations in the financial sector, through both advisory and investments, as CBU has expressed their commitment to reduce drastically the share of the state in the banking sector. Further to this, IFC will continue to partner with select banking and non-banking institutions to help increase access to credit for the private sector, including MSMEs, through long term finance and short-

term trade finance lines, and to assist improve their operational efficiency, enhance risk management and corporate governance structures through advisory services. MSMEs are playing an increasingly important role in Uzbekistan's economy, while with a low level of bank credit ratio to GDP (27%), MSMEs are clearly underserved and require more financing than is currently available.

54. As Uzbekistan aims to maximize its development resources by drawing on private sector financing – there is a greater need to develop and strengthen capital markets in order to mobilize commercial financing and attract FDI. For this to happen, the government needs to implement a set of policies to build trust, allow fair competition, and establish a stable macro environment and radically improve the investment climate. IFC is interested to support capital markets development (such as by means of local currency bonds issuance). Following the currency liberalization and as domestic banks lack access to long term local currency resources, IFC is committed to support partner banks' local currency lending.

Deepening reforms for a competitive agriculture sector

55. The World Bank is supporting the Government's renewed market-led and private-sector driven approach in agriculture and food production. Agriculture continues to play an important part in Uzbekistan's economy and in 2016 accounted for 17 percent of gross domestic product, 15 percent of export revenues, and over one third of employment. As noted in the SCD, the agriculture sector may produce significant results in terms of economic growth and employment in the medium term. Also, diversification of outputs and exports have considerable space to expand. Under the CPF, on-going operations have been instrumental in promoting innovative approaches, especially in support of private investments in diversification and value chain development, and in changing labor recruitment practices for cotton harvesting and in promoting cotton harvest mechanization. WBG in coordination with the ILO has been playing a key role in transforming the cotton sector in Uzbekistan through investments and advisory services to improve labor practices, productivity, and cotton farming practices. This assistance will continue. The Livestock Sector Development Project (US\$150 million approved in June 2017) and additional financing to the Horticulture Development Project (US\$500 million approved in January 2018) were accelerated to further stimulate private investments in production, processing, storing and marketing. The Bank leveraged complementary grants from the European Union for technical assistance to support value chain development, institutional capacity building, regulatory framework improvement, and small farmers' access to higher value markets, with particular focus on supporting cooperation models for female entrepreneurs and Water User Associations. In addition, IFC can support implementation of these projects through capacity building of the partner financial institutions in agricultural finance.

56. To further transform the agriculture sector, GOU has requested the Bank to lead a multi-donor effort in preparing an agriculture modernization strategy that would provide guidance on critical policy, regulatory and institutional reforms. To support GOU's reform process, the Bank is prioritizing implementation of key institutional and regulatory reforms. The Bank team is currently leading a multi-donor group that is assisting with the preparation of an agriculture modernization strategy. Moving forward, interventions in the agricultural sector will be linked to the overall macro-economic reform discussion and development policy operations, with specific attention to creating private sector-driven input/output markets, reforming state-owned enterprises, progressively liberalizing the cotton/wheat system, and giving more freedom to farmers to develop private agribusiness entrepreneurship. Reform implementation, including accompanying the required institutional adjustments and mitigating any potential social disruption, will be supported through an Agriculture Modernization and Competitiveness Project planned for FY20. In support of rural

development, the World Bank is also preparing an innovative investment in the Ferghana Valley based on a regional and multi-sector developmental approach (US\$300 million, FY19).

Box 1. The GOU is progressively reforming the cotton sector

The Government's Development Strategy for 2017-2021 aims at a deep market-driven and private sector-led transformation of the agricultural sector to improve its overall efficiency and competitiveness. The new policies include measures to prohibit forced labor; introduce a large increase in payments for cotton picking to promote voluntary pickers; and establish a new Committee on Labor Rights Guarantees under the Senate to strengthen the oversight powers of the Coordination Council on labor issues at the regional and local level.

GOU is piloting several cluster models to identify a mechanism which would allow it to transfer the government-funded cotton supply chains to the private sector in a socially and economically sustainable manner. IFC is supporting a global investor on the design, testing and implementation of a private sector - led cotton farming and ginning cluster model. GOU also opened a channel for dialogue between human rights activists and the Uzbekistan authorities.

The Bank will continue its collaboration with the ILO and will expand the focus from child and forced labor to a more comprehensive approach on improving labor rights and working conditions in the agricultural sector. This wider approach will include comprehensive studies, awareness raising events, and targeted capacity building, including using more engaging formats, such as launching "Youth Labor Week" jointly with the Youth Union. IFC will focus on removing the "Pledge against Uzbek cotton," by upgrading the cotton value chain efficiency and transparency in dialogue with CSOs and industry stakeholders.

57. IFC will continue to assess investment opportunities in the agribusiness sector, even though currently the number of potential eligible private sector partners is limited. In cotton and textile sectors, IFC will continue to support the development of export markets through financing and advisory services to improve labor, productivity, and farming practices. MIGA will consider supporting cross-border investments in agribusiness, including together with IFC. IFC is also considering a new advisory project to develop the apparel sector in Ferghana Valley by supporting apparel manufacturing SMEs to access export markets through improved standards, operational efficiency and productivity, buyers outreach, and international standards certification. The effort is expected to lead to improved employment generation for female workers and reduce informality. Increased access to finance for micro and small agricultural enterprises is a key area of focus for the Government. Therefore, IFC will build on the results of the Central Asia Agri-finance Project (CAAP) to identify opportunities to increase access to finance for farmers partnering with a larger number of financial institutions. To further support the sector, IFC will leverage on the CPSD deep dive analysis, Bank policy interventions and the IDA Creating Markets Advisory Window (CMAW).

New Connectivity Agenda to Support greater openness and trade

58. Following recent trade policy improvements and visa reform, upgrades in transport and logistics infrastructure and efficient customs procedures would greatly reduce the cost of trade for Uzbekistan's double locked economy, as well as enable the development of tourism. As mentioned before, the Bank is helping the GOU with an integrated transport sector strategy using the extensive knowledge the Bank has accumulated in the sector through the ongoing infrastructure projects. In a more focused manner, the CPSD is currently analyzing air transport connectivity. The results of the study would inform the IFC and Bank engagement in the sector. The digital dimension of trade and connectivity infrastructure is also key, as ICT and ICT-enabled services are increasingly

important inputs in all economic activities and many goods and services are increasingly traded through digital platforms. GOU has formally expressed interest in joining the regional Digital Central Asia and South Asia (CASA) program. It will help increase access to more affordable internet, crowd-in private investment in the ICT sector, and improve participating governments' capacity to deliver digital government services in Central Asia (currently Kyrgyz Republic) and parts of South Asia (currently Afghanistan), through the development of a regionally integrated digital infrastructure and enabling environment. IFC would consider improving the country's connectivity through investments, support for privatizations, facilitation of PPPs, as well as the development of advisory services to specifically address trade policy and procedure barriers. The Government has asked for IFC's help in developing road PPPs, which is currently under discussion.

Improved efficiency in land management

59. GOU seeks to modernize its real property registration and cadaster system in order to realize the economic and social benefits of up-to-date and accessible information for future development. The eGovernment Master Plan initiative,⁸ of which the registry and cadaster is a central part, is one of the Government's priorities for improving the investment climate in Uzbekistan. Demand for registration and cadaster information is rapidly increasing. Market pressure and the need to quickly respond to requests for information by the public, as well as other agencies (courts, tax authorities, banks, statistics, etc.), have prompted some of the self-financed registry and cadaster offices to invest in modern technologies. The Modernization of Real Property Registration and Cadaster project (ongoing) will help establish an efficient and accessible real property registration and cadaster system in Uzbekistan as part of the national eGovernment structure and services. Continued feedback through user-satisfaction surveys will help tailor services to the needs of the citizens.

Focus Area 2: Reform of select state institutions and citizen engagement

60. Uzbekistan needs to build and strengthen the institutions that are necessary to deliver on the new policy reform agenda. The proposed DPOs will support several fundamental economic and social reforms. However, the success of the reform program will depend on the availability of well-functioning institutions empowered to design, implement, monitor and coordinate the multiple ongoing and future reforms. Focus Area 2 has four objectives: (i) strengthening fiscal institutions and financial sustainability of SOEs; (ii) increased access, efficiency and reliability of power supply and heating services; (iii) improved access to and quality of water supply and sanitation services; and (iv) strengthened citizen participation in oversight of public service delivery.

Strengthening public finance management and financial sustainability of SOEs

61. Improving public finance management (PFM) and the governance and management of SOEs are two major areas of reform. The programmatic Public Expenditure Review (PER) and Public Expenditure and Financial Accountability assessment (PEFA) to be conducted in FY18-19 will inform the roadmap for the country's PFM reforms. It is expected that the implementation of a new SOE policy (including rationale for government ownership), SOE transparency and accountability, SOE performance monitoring, and the development of an enabling legal and regulatory framework for ensuring a level playing field and fair competition in the marketplace will be addressed in the context

⁸ Approved on 27 June 2013, the Master Plan is a comprehensive program for the development of the national information and communication system of the Republic of Uzbekistan for 2013-2020. Its purpose is to further promote the adoption of advanced ICT technology, accelerate the development of information resources, systems and networks, as well as to expand the range of online public services provided to businesses and citizens.

of the PFM reforms. These interventions would be supported through the DPOs and proposed Institution Building Loan to strengthen institutions in several areas (e.g., budget, tax administration, customs, financial sector, social protection). Process improvements in public administration and implementation of related automation would likely be required in a next generation of public sector reforms.

62. The Bank will continue to support the comprehensive public procurement reforms launched by the Government. Recognizing the importance of procurement reforms, GOU recently established the public procurement regulatory function at the National Agency for Project Management (NAPM) under the President's office and adopted a new Public Procurement Law (PPL). The PPL establishes comprehensive procurement principles, such as professionalization of the procurement service, further development and utilization of e-procurement and, for the first time in country's history, it legalizes the public control of the public procurement. The Bank has supported the above reforms through two ASA projects and shall continue further collaboration with the NAPM and State Investment Committee through the TF-financed project "Support for Creation Sustainable Procurement Capacity Building in Uzbekistan." The new PPL requires immediate support for development of the public procurement by-laws, training of procurement trainers, training of officials and certification of officials for conducting procurement, and other aspects of the new system.

The changing nature of energy and water sector engagements

63. The ongoing energy sector program addresses some of the key sectoral issues. The Bank's investment portfolio focuses on increasing the efficiency of infrastructure and reliability of supply needed for robust and sustainable economic development, and enhancing energy efficiency across the economy that is among the most energy-intensive in the world. Moreover, the Bank has also been proactive in engaging in strategic sector reform dialogue, including support with a least-cost power generation plan, electricity dispatch efficiency assessment, electricity tariff methodology, in-depth financial analysis of Uzbekenergo, and IFRS-based financial reporting and the introduction of Enterprise Resource Planning to improve utilities' corporate governance.

64. However, energy sector reform efforts are hampered by fragile financial conditions of Uzbekneftegaz and Uzbekenergo— two of the largest SOEs in the country. The two companies have extensive economic forward and backward linkages, as they collectively employ about 170,000 people (close to 20 percent of the estimated employment in SOEs), and their services are key inputs for the agricultural, industrial and other sectors. GOU is in the process of preparing and adopting a long-term energy sector development strategy and other measures, including roadmaps for the financial recovery of Uzbekneftegaz and Uzbekenergo, and has approached the WBG for support in various key strategic areas to improve the energy sector performance.

65. Going forward, the WBG's engagement in the energy sector will focus on the following tasks: (i) the design and implementation of the SOE reforms that would be undertaken as part of the DPO(s), and will aim at: recovering the financial performance of Uzbekenergo and Uzbekneftegaz; improving their transparency and corporate governance; mitigating the impact of required energy price adjustments on the vulnerable groups; and facilitating private investment under the PPP framework; (ii) helping the Government develop a coherent energy sector strategy that would identify key reforms to achieve the sectoral goals, the sequence in which reform measures are to be undertaken, and underlying assessments that would be necessary; (iii) assisting GOU with scaling up clean energy development and energy efficiency enhancement by providing assistance in developing the key legislation, assessments and studies, market development, developing public support and capacity building; (iv) supporting the Government programs in heating and hydropower sectors through preparation of respective development strategies and master plans, and providing capacity building

activities; (v) helping strengthen regional energy trade and market development through assessment of regional power system and trade opportunities, enhancing energy sector dialogue among countries, and institutional development for regional and national power system operators. Uzbekistan will need to mobilize significant investments over the next two decades to meet the increasing energy sector demand, to replace/rehabilitate ageing and inefficient assets and to diversify its energy mix.

66. IFC is exploring opportunities to expand in Uzbekistan its Central Asia and Caucasus Energy Infrastructure Program in the areas of development of electricity and renewable energy markets; improved operational efficiency of transmission and distribution networks and improved operational efficiency of conventional generation. Recognizing the significant solar resource available in the country (among the best in Central Asia with technical potential of 2 mln GWh/year), GOU has approached WBG for advisory support to be implemented in conjunction with a series of TAs to improve the enabling environment for renewable energy development. IFC's Scaling Solar program will help attract private investors to design, finance, build and operate Solar IPPs. An Advisory Agreement between GOU and IFC was signed in May 2018. IFC's financing for the private sector in the energy sector so far has been constrained by the fact that the sector is fully owned and operated by the public utility as well as absence of proper regulations (renewable energy, IPP, cost recovery tariffs etc.).

67. Access to and quality of municipal services, such as water supply and sanitation (WSS), remain a significant challenge for Uzbekistan. The current engagement includes concrete measures to consolidate the utility restructuring and performance improvement process, particularly in Bukhara, Samarkand and Syrdarya regions, the launch of a TA program to support development of tariff policy & sector financing, integrated planning, water and energy efficiency and climate resilience. The WBG also recently commenced preparation of a proposed new water supply and sanitation program, broadly designed to support implementation of the Government's sector-wide reforms and achievement of their stated sector development goals. It is envisaged that this program will facilitate a more impactful engagement, whereby financing is directed to priority policy, institutional, and infrastructure activities at both the national and regional levels – to accelerate progress towards the long-term sectoral development objective, i.e., achieving universal access to sustainable water services. In order to help upgrade the deteriorating municipal infrastructure, IFC will explore engagement opportunities with select municipalities through investments and facilitation of PPPs in the areas of solid waste management, district heating and urban transport. A well-structured PPP law and tendering infrastructure projects in a transparent manner would help unlock private sector participation at the municipal level, while strong central and municipal government leadership and long-term vision around increasing private sector participation in infrastructure are key.

Reducing spatial disparities

68. While most of Uzbekistan's geographically distinct regions share similar development challenges, the confluence of social, physical, and economic issues can present unique development challenges in a particular locality. Addressing these specific development challenges may require spatially targeted interventions. Lessons learned from regional development programs have shown they are most successful when focusing on supporting regions in reaching their economic potential and on achieving converging living standards or opportunities. One of Uzbekistan's most densely populated and poorest regions, Ferghana Valley has several opportunities to further develop an already vibrant regional economy but is also characterized by spatial differences and socio-economic disparities between districts, particularly between urban and rural districts. Interventions under the proposed Ferghana Valley Regional Development Project would improve access to services

in under-served areas and accelerate enterprise development to address the region's growing labor market and demand for additional economic opportunities.

New focus on citizen engagement

69. Citizen Engagement (CE) has become a priority for the government. The policy environment for citizen engagement has changed fundamentally since 2016 with GOU adopting a regulatory framework that will: establish new institutions to engage with citizens (e.g., public councils), strengthen capacity of existing institutions to engage with the people (e.g., local elected councils), and enable a citizen-centered approach to service provision. To this end, various efforts (such as the Virtual Receptions) have been launched by the Presidential Administration, line ministries, and local governments. In the context of the changing government approach to citizen engagement, and with the knowledge of past implementation challenges, the Bank has proposed a National Citizen Engagement Framework to support the development of genuine citizen engagement in service delivery and underpin the design and implementation of citizen engagement mechanisms in priority Bank-financed projects. This Framework will directly contribute to Focus Areas 2 and 3, through innovative mechanisms for information provision, participatory decision-making and citizen monitoring of public services, and ongoing dialogue between citizens and government authorities. New operations currently under preparation in energy, water, education and health sectors would provide the vehicles for the implementation of this Framework at national and local levels. The development of lagging villages and districts in rural areas has also been prioritized by the Government and the Bank is exploring how to support this agenda with community-driven development. Annex 6 provides a readout of the progress in citizen engagement in Uzbekistan and a citizen engagement country roadmap for the remainder of the CPF period. Mobilization of TF funding for capacity building for local level official on issues related to community driven development, local economic empowerment, citizen engagement, improved labor relations, etc., will be prioritized.

Focus Area 3: Investing in people

70. GOU recognizes the importance of investing in human capital through the education, social protection and health services. Improved quality of investments and quality of services in these areas is key to generating the human capital and infrastructure needed for job creation, as well as for realizing the objectives laid out in Focus Areas 1 and 2. This focus area has two objectives: (i) improved access to quality education and health; and (ii) effective social safety nets.

Improving access to quality education and health services

71. GOU's broad reform program foresees expanding coverage and improving quality of healthcare service delivery. As noncommunicable diseases continue to account for high morbidity and mortality in Uzbekistan, the WBG has been supporting the strengthening of primary health care and improvement of allocative efficiency for upgrading infrastructure and treatment protocols, delivering revised in-service training for doctors and nurses, and exploring new health financing mechanisms, such as per capita financing in primary health care and piloting output based financing in hospitals, as well as piloting citizen feedback mechanisms on the quality of services. Modernization of the emergency medical services, starting from restructuring of pre-hospital dispatch services to upgraded hospital triage system, as well as improvement of skills and knowledge of health providers, will be supported under the Emergency Medical Services Project (\$100m; FY18). Options for health insurance and establishment of a single purchaser of health services are also being considered. IFC aims to pilot the first PPP project in hemodialysis and introduce best international practices into this health subsector in Uzbekistan.

72. Recognizing the importance of the Early Childhood Development (ECD), GOU has announced an ambitious plan to expand ECD service provision with the aim of achieving 100 percent enrollment for children ages 6-7 by 2021. Despite the high level of expenditure in preschool education in Uzbekistan,⁹ only approximately 29 percent of children aged 3-7 were enrolled in preschools in 2017, which is extremely low compared to other countries. GOU's two-fold plan for expanding ECD includes public provision of services in rural areas and public-private partnerships in urban areas. Mechanisms for structured engagement of parents and teachers, and local communities would be integrated into project design. The proposed *Promoting Early Childhood Development Project* (under preparation) builds on successfully implemented ECD initiatives across the globe, and proposes an innovative social impact bond component that will crowd-in private capital for the expansion of service provision in urban areas, under a results-based financing approach where the risks for investing in ECD rest on investors.

73. Demand for skilled labor in Uzbekistan has grown faster than supply, and skills mismatches are evident in the labor market. Many firms consider the lack of relevant skills, especially language and non-cognitive skills, as an obstacle for doing business in the country.¹⁰ The *Modernizing Higher Education Project* (under implementation) is helping Uzbekistan's higher education system better respond to the needs of the country's economy, by expanding access to higher education, improving internal and external quality assurance, strengthening linkages between higher education and industry, improving accountability and governance, and modernizing the curriculum and laboratories. IFC will assess PPP opportunities in the education sector.

Building effective social safety nets

74. The Bank program will play a significant role in building modern social protection frameworks that would expand social protection coverage, coupled with improved poverty targeting and labor market reforms. Through the DPOs, ASA, and proposed IDA operation, the Bank will assist with the design and implementation of effective safety nets to protect the poorest as well as those who are vulnerable to the negative impact of the economic reforms. Specifically, the TA will improve the poverty targeting and eligibility criteria, adjust the benefit structure to households' socio-economic characteristics, assess the existing social protection benefits structure, and identify demand-supply mismatches.¹¹ A planned IDA operation will support the Government to revamp its social protection system by: (i) upgrading and enhancing the social registry used to provide timely social benefits tailored to the household composition and socio-economic status (building on the existing Integrated Social Window Office Pilot); and (ii) designing and implementing innovative labor market interventions to facilitate labor mobility and access to sustainable jobs with a focus on workable individuals and displaced workers from vulnerable households.

Potential New Lending Engagements

75. The Bank's current portfolio in Uzbekistan comprises 17 projects totaling US\$2.84 billion. With the delivery of one remaining operation in FY18 (DPO, \$500m), net commitments will reach US\$3.34 billion, making Uzbekistan one of the largest borrowers in the Europe and Central Asia region. As of April 2018, IFC's total committed portfolio stood at US\$52.7 million for 9 projects with

⁹ Public expenditure on education was nearly 7 percent of the GDP in 2016, out of which something between 9 and 14 percent was spent on preprimary education.

¹⁰ "Uzbekistan: Modernizing Tertiary Education" Report, World Bank, 2014.

¹¹ Official statistics suggest that Uzbekistan achieved steady poverty reduction in recent years, with the national poverty rate falling from 27.7 in 2000 to a projected 12.4 percent in 2017. However, the lack of access to data inhibits benchmarking Uzbekistan's progress, and up-to-date official World Bank poverty estimates are unavailable.

investments in the financial sector and manufacturing. In addition, IFC's advisory services portfolio comprises six active projects. MIGA had issued a political risk insurance guarantee for US\$119.5 million to BNP Paribas (Suisse) SA of Switzerland to cover a non-shareholder loan to Lukoil Overseas Uzbekistan Ltd. That guarantee was terminated in FY2017 and no new guarantees have been issued since then.

Table 2: FY18-21 pipeline

Focus area(FA)	Project	IDA, \$m	IBRD, \$m	Status
FY18				
FA1	AF for Horticulture Development Project	0	500	delivered
FA2	AF-2 for Energy Efficiency Facility for Industrial Enterprises Project	0	200	delivered
FA2	District Heating and Energy Efficiency Project	140	0	delivered
FA3	Emergency Health Services Project	100 ¹²	0	delivered
FA1-3	Reforms for Transition DPO	500	0	pipeline
	Sub-total	740	700	
FY19				
FA1	Integrated Urban Development Project	0	100	pipeline
FA1	Institutional Building TA Project	30	0	pipeline
FA2	Ferghana Rural Development Project	150	150	pipeline
FA3	Early Childhood Development Project	50	0	pipeline
FA3	Strengthening Social Protection System Project	50	0	pipeline
FA1-3	Reforms for Transition DPO-2	0	500	pipeline
	Sub-total	280	750	
FY20				
FA1	Agriculture Modernization Project	TBC	TBC	pipeline
FA2	WSS and Institutional Reforms Project	TBC	TBC	pipeline
FA2	Digital CASA (<i>regional project</i>)	TBC	TBC	pipeline
FA1-3	Innovation Commercialization Project	TBC	TBC	TBC
	Sub-total	TBC	TBC	
FY21				
FA1-3	Reforms for Transition DPO-3	TBC	TBC	TBC
FA1	Institutional Building TA Project-2	TBC	TBC	TBC
FA1	Integrated Urban Development Project-2	TBC	TBC	TBC
FA1	Village Improvement Project	TBC	TBC	TBC
	Sub-total	TBC	TBC	

76. IBRD's indicative lending envelope to Uzbekistan during the PLR is envisioned to reach about \$2 billion with \$700 million already delivered. The pace of the further utilization of the IBRD envelope will be determined by several factors: (i) Uzbekistan's progress in implementing reforms; (ii)

¹² This allocation includes \$45 million cancelled from the Health System Improvement project (P113349)

improved performance of the portfolio; (iii) IBRD's overall lending capacity; and (iv) interest of other development partners in co-financing projects. The PLR recognizes that achieving the planned results will depend on reforms that are sensitive and require deep engagement by the Government and other stakeholders, especially those related to SOE and institutional reforms, and creating a level playing field for the private sector. Additional DPO lending will depend on progress in implementing of key structural reforms, as well as on maintaining a sustainable macroeconomic framework. New investment project lending will depend on both improvements in the implementation of the existing portfolio, including the pace of disbursement, and on progress of reforms that are necessary for investment projects to produce the intended benefits.

77. For FY18-20 under IDA18, the indicative IDA allocation for Uzbekistan is around SDR744.9 million, or \$1,043 million.¹³ Uzbekistan benefits from the scaled-up support under IDA18 from both country allocations and set-aside windows that Uzbekistan is eligible to access, such as the regional window. IDA18 allocations will be frontloaded to provide timely support to the rapidly unfolding reforms in the country. Uzbekistan's allocation for FY21 is yet to be determined as part of the IDA-19 replenishment process. Table 2 presents the indicative IBRD/IDA pipeline for the remainder of the PLR period.

78. The expansion of IFC's program will depend to a large extent on the Government's dedication to reforms in the systemic areas listed in Focus Areas 1 and 2 and more specifically on progress achieved with SOE reform and privatizations, infrastructure modernization, financial sector strengthening and capital markets development, as well as trade reforms and opening of the agricultural sector. Improving the business environment and reducing corruption are fundamental reform priorities. Slow progress in these areas will constrain new investments from IFC and the attraction of sustainable FDI in the country.

VI. RISKS TO CPF PROGRAM

79. Overall risk to the CPF program remains substantial. Uzbekistan has embarked on an ambitious reform process transforming the economy from a state-controlled and centrally planned to a market one. However, the speed, sequencing and comprehensiveness of the reform process pose substantial risks that need to be addressed during implementation of the CPF program. In this regard, the WBG is mobilizing, together with other international financial institutions and bilateral partners, significant technical assistance to support the transition. Key risks to the CPF program assessed as substantial include: (a) political and governance; (b) macroeconomic; (c) institutional capacity for implementation and sustainability and (d) environment and social, while fiduciary risks are assessed as high.

Table 3: Systematic Operational Risk-Rating Tool

Risk Category	Rating (H, S, M or L)	
	CPF FY16-20	PLR
Political and governance	Substantial	Substantial
Macroeconomic	Substantial	Substantial
Sector strategies and policies	Moderate	Moderate
Technical design of project or program	Moderate	Moderate

¹³ These amounts are indicative, with actual allocations per FY being subject to: (a) total IDA resources available (including cancellations of funds in existing portfolio that are eligible for recommitments); (b) Uzbekistan's performance rating, per capita GNI, and population; (c) the number of IDA-eligible countries; and (d) the performance and other allocation parameters for other IDA borrowers.

Institutional capacity for implementation sustainability	Substantial	Substantial
Fiduciary	High	High
Environment and social	High	Substantial
Stakeholders	Moderate	Moderate
Overall	Substantial	Substantial

80. Political and governance. The government's stated objective to minimize the social impact of the transition could lead to reform delays and excessive government interventions in the real economy, thus diminishing the positive impact of the changes on market incentives and relative prices. The authorities are aware of these risks and are utilizing a continuous consultation process with the WBG and other stakeholders, and are raising awareness on key policy measures. These risks are also mitigated by the government's commitment to the reform program, which has resulted in advancing or implementing important policy actions, including foreign exchange rate liberalization, increased coverage of safety nets, and planned reform of SOEs, which is supported by several WBG operations.

81. Macroeconomic risks. On the external side, the uncertainties related to both nominal and real demand shocks for Uzbek exports may have a strong negative impact on growth, exacerbated by the high concentration of exports to China and Russia. Importantly, on the domestic side, the banking sector could be affected by weak growth and SOE performance, particularly in view of the sizeable amount of directed lending in their portfolios. Price and exchange rate liberalization may lead to high inflation in the medium-term which, in turn, may require larger than expected contractionary fiscal and monetary policies. The WBG will continue to monitor developments and, if necessary, adjust the scope and focus of the program to help GOU to mitigate the risks.

82. Institutional capacity for implementation and sustainability. Implementation of the World Bank portfolio in Uzbekistan has been challenging despite the government's strong political commitment for reform. The Government intends to address implementation bottlenecks, but progress will likely be slow given the capacity constraints, resistance to change, and frequent reshuffling. While the government restructuring since February 2017 has affected implementation of projects, establishment of liaison position for international financing institutions (IFIs) within the Cabinet of Ministers has allowed to further strengthen and intensify portfolio reviews and increase focus on cross-cutting portfolio issues in a more systemic manner. The Bank in coordination with development partners is working with GOU to simplify new government clearance procedures introduced in February 2018 and synchronize them with the IFIs' project processing cycle. It is expected that regular quarterly portfolio meetings (last meeting was conducted on May 7, 2018), technical reviews chaired by the State Investment Committee, rollout of e-Disbursement in all projects, simplification efforts and intensive capacity building of PIU staff (more than 25 workshops were delivered in FY18) will improve portfolio performance and accelerate disbursement pace during the PLR period. For IFC, the reform momentum and modalities also represent a major implementation risk. Given that further reforms are needed to bring to fruition the vision of private sector-led growth, IFC's engagement in the country will depend on sustained pace of market reforms, as well as, on the willingness of the Government to upgrade its implementation capacity and engage with the private sector.

83. Fiduciary. The risk of delayed program implementation and inefficient use of WBG resources because of weak institutional, especially fiduciary and procurement capacity, remain rated as high. The WBG will continue to closely monitor fiduciary aspects of project implementation and build the staffing capacity of the implementing agencies. The WBG plans to conduct public expenditure and financial accountability assessment and support the government in development of the public financial

management reform strategy as well as public procurement law to improve the legislative and regulatory framework for financial management and procurement.

84. Environment and social risks. There has been significant progress on improving labor relations in agriculture following intensive engagement of GOU with international community and civil society. The new policies introduced since September 2017 included measures to prohibit forced labor, inter alia recalling students, staff of medical and educational institutions from cotton fields, increase in payments for cotton picking to promote voluntary pickers. Since January 2018, the Government has been implementing a package of enhanced measures aimed at advancing reforms in the administration of the cotton sector and increasing payments to cotton farmers including reallocation of 150 thousand hectares of land from cotton cultivation for use under horticulture and livestock projects and establishment of 14 textile clusters nation-wide to promote market oriented approach in the sector. In partnership with key stakeholders, the WBG will continue to follow a holistic approach undertaken at the preparation of the CPF anchored in implementation of the Third-Party Monitoring and Feedback Mechanism. Finally, environmental risks are also rated as substantial due to the remaining gap between national legislation and WBG safeguards requirements, and capacity constraints. Against this background, the WBG will continue to strengthen safeguards' capacity of implementing agencies and PIUs in assessing and mitigating environmental risks during preparation and implementation of projects in Uzbekistan, particularly with the new World Bank Environment and Social Framework to be launched in October 2018.

ANNEX 1: Updated CPF Results Matrix

Focus Areas 1: Sustainable transformation towards a market economy	
CPF Objectives	Key WBG Activities
1.1 Enhanced economic growth and transition towards a market economy	
<p><u>Indicator 1: Reduced exchange rate and monetary distortions</u> <i>Baseline:</i> 25% surrender requirement on foreign exchange from export earnings (September 2017) <i>Target:</i> None (June 2019)</p> <p><u>Indicator 2: Reduced difference between domestic average price for cotton and international market price</u> <i>Baseline:</i> More than 20% (September 2017) <i>Target:</i> Less than 10% (June 2019)</p> <p><u>Indicator 3: Reduced simple average customs tariff rates</u> <i>Baseline:</i> 15.3% (September 2017) <i>Target:</i> 8% (June 2019)</p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Financial Sector TA Strengthening Banking Regulations Support Transition to Market Economy <i>Welfare Monitoring</i> <i>Uzbekistan Public Expenditure Review</i> <i>Investment Climate Reform</i> PER</p> <p>Key Partners: ADB, EBRD, EU</p>
1.2 Improved regulatory requirements for business	
<p><u>Indicator 1: Time to export (border / documentary compliance)</u> <i>Baseline:</i> 112/ 174 hours (DB 2016) <i>Target:</i> 45/67 hours (DB 2020)</p> <p><u>Indicator 2: Time to get a construction permit</u> <i>Baseline:</i> 258 days¹⁴ (DB 2016) <i>Target:</i> 100 days (DB 2020)</p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Investment Climate Reform (DB, Competition protection, Special Economic Zones)</p> <p>Key Partners: EBRD, EU, UNDP</p>

¹⁴ Indicator in original CPF is 176 days. The baseline was revised to reflect change in DB methodology.

1.3 Strengthened access to finance and financial services for the private sector	
<p><u>Indicator 1: % of firms using banks to finance investment</u> <i>Baseline:</i> 16.1 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 25% (2020)</p> <p><u>Indicator 2: % of firms with female participation in ownership</u> <i>Baseline:</i> 29.2% (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 31% (2020)</p> <p><u>Indicator 3: Volume of MSME loans</u> <i>Baseline:</i> 27,600 MSME loans, facilitating USD 480 million (2017) <i>Target:</i> 117,000 MSME loans, facilitating USD 976 million (2021)</p> <p><u>Indicator 4: Value of financing facilitated through IFC advisory projects</u> <i>Baseline:</i> 404.4 million (2017) <i>Target:</i> 517 million (2021)</p>	<p>Lending: Additional Financing for Horticulture Development Project Livestock Development Project <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Financial Sector TA Strengthening Banking Regulations Support Transition to Market Economy Investment Climate Reform</p> <p>IFC: Hamkorbank UZBEK LEASING Uzbekistan FM Infrastructure ECA Banking RM Ipoteka Bank Transformation <i>Potential new investment and advisory interventions</i></p> <p>Key Partners: EBRD</p>
1.4 Improved diversification of agriculture production	
<p><u>Indicator 1: Increased livestock productivity</u> <i>Baseline:</i> 0 (2015) <i>Target:</i> 15% (2021)</p> <p><u>Indicator 2: Increase in areas under horticulture, fodder crops and other crops (non- cotton/ wheat)</u> <i>Baseline:</i> 584,000 ha (2015) <i>Target:</i> 800,000 ha (2020)</p>	<p>Lending: Additional Financing for Horticulture Development Project Livestock Development Project <i>Agriculture Modernization and Competitiveness Project</i> South Karakalpakstan Water Resources Management Improvement Project Ferghana Valley Water Resource Management Project-Phase 2</p>

	<p><i>Transition to Market Economy DPO-1</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Agriculture Modernization Strategy Assessing constraints and opportunities for socially responsible cotton intensification and mechanization Third Party Monitoring in Cotton Sector Water Resources Assessment Regional Irrigation Efficiency Study</p> <p>IFC: Indorama Central Asia Agri-finance Project New Uzbekistan Sustainable Cotton AS (linked to Indorama Textile) <i>Potential new investment and advisory engagements in support agribusiness</i></p> <p>Key Partners: ADB, AFD, EU, FAO, CGIAR, GIZ, IFAD, IsDB, JICA, SECO, UNDP, USAID</p>
1.5 Improved efficiency of infrastructure service delivery	
<p><u>Indicator 1: Improved reliability of rail services (percentage of delays)</u> <i>Baseline: 95% (2015)</i> <i>Target: 5% (2019)</i></p> <p><u>Indicator 2: International internet bandwidth per capita (kb/sec/prs)</u> <i>Baseline: 2.1 Kbps (2016)</i> <i>Target: TBD</i></p> <p><u>Indicator 3: Improved users' perception of the quality of real property registration services</u> <i>Baseline: 0 (2017)</i> <i>Target: 10% (2021)</i></p>	<p>Lending: Pap-Angren Railway Project Regional Roads Development Project <i>Digital CASA</i> Modernization of Property Registration and Cadastre Project <i>Medium-Sized Cities Integrated Urban and Territorial Development Project</i></p> <p>Analytical & Advisory Assistance: Transport Sector Strategy Support to the Land Administration and Geospatial Modernization TA Project Strengthening Disaster Resilience in Uzbekistan</p>

	<p>Sustainable Urban and Regional Development Program</p> <p>IFC: <i>Potential PPPs</i> <i>Support for privatizations and investments</i> <i>Potential Advisory Services to help address trade policy and procedure barriers</i></p> <p>Key Partners: ADB, EIB, EBRD, IsDB, Korean Exim Bank</p>
Focus Area 2: Reform of select state institutions and citizen engagement	
2.1 Enhanced corporate governance and strengthened financial sustainability of SOEs	
<p><u>Indicator 1: Augmented budget outturns on tax expenditures, current spending and net lending to UE and UNG</u> <i>Baseline:</i> 1.2% of GDP and no IFRS compliant financial statements have been published (December 2017 – 2017 budget) <i>Target:</i> less than 0.6% of GDP and IFRS-compliant financial statements have been published for 2015 and 2016 (December 2018-2018 budget)</p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Energy Tariffs in Uzbekistan: Impact & Way Forward Strategic Advisory on Improvement of Corporate Governance PEFA PER</p> <p>Key Partners: ADB, EBRD, EU</p>
2.2 Increased access, efficiency and reliability of power supply and heating services	
<p><u>Indicator 1: Number of outages of major equipment in the target transmission substations per year</u> <i>Baseline:</i> 103 times (2017) <i>Target:</i> 10 times (2024)</p> <p><u>Indicator 2: Improved energy efficiency in industrial enterprises (energy savings per year)</u> <i>Baseline:</i> 0 GWh</p>	<p>Lending: Additional Financing for Energy Efficiency for Industrial Enterprises District Heating Energy Efficiency Modernization & Upgrade of Transmission Substations</p> <p>Analytical & Advisory Assistance:</p>

<p><i>Target: 613 GWh (2023)</i></p> <p><u>Indicator 3: People served by improved and energy-efficient heating facilities in project areas</u></p> <p><i>Baseline: 0 (2017)</i></p> <p><i>Target: 240,000 people (2024)</i></p>	<p>Energy Sector Development Note Development of a National Industrial Energy Management Plan Power System Dispatch & Renewable Energy Integration Small & Medium Hydropower Development Program Urban Heating Strategy for Uzbekistan</p> <p>IFC: Advisory Services on IDA Central Asia Energy Infrastructure <i>PPPs in solar energy and potential investments in municipal infrastructure</i></p> <p>Key Partners: ADB, EBRD, JICA</p>
<p>2.3 Improved access to and quality of water supply and sanitation services</p>	
<p><u>Indicator 1: Increased access to safe drinking water in urban and rural areas</u></p> <p><i>Baseline: 1.3 mln people</i></p> <p><i>Target: 2 mln people (2020)</i></p> <p><u>Indicator 2: Increased access to sanitation services in urban and rural areas</u></p> <p><i>Baseline: 0.55 mln people</i></p> <p><i>Target: 1.15 mln people (2020)</i></p>	<p>Lending: Syrdarya Water Supply Project Additional Financing for Bukhara & Samarkand Sewerage Project Alat & Karakul Water Supply Project. <i>Water Supply & Sanitation and Institutional Building Program – Phase 1</i></p> <p>Analytical & Advisory Assistance: National Water Supply Source and Demand Assessment</p> <p>Key Partners: ADB, EIB, EBRD, French Development Agency, IsDB, OPEC, Saudi Development Fund, SDC</p>
<p>2.4 Strengthened citizen participation in oversight of public service delivery</p>	
<p><u>Indicator 1: Number of projects integrating elements of National Citizen Engagement Framework</u></p> <p><i>Baseline: 0 (2017)</i></p>	<p>Lending: Fergana Regional Development Project</p>

<p><i>Target: 4 (2021)</i></p> <p><u>Indicator 2: Percentage of community-based subprojects supported through Ferghana Regional Development Project selected by communities and meeting priority community needs</u></p> <p><i>Baseline: 0% (2017)</i></p> <p><i>Target: 75% (2021)</i></p>	<p>Analytical & Advisory Assistance: Listening to Uzbekistan Third Party Monitoring in Cotton Sector Support to Development of National Citizen Engagement Framework</p> <p>Key Partners: State Investment Committee, Development Strategy Center, Women's Committee, Federation of Trade Unions</p>
Focus Area 3: Investing in people	
3.1 Improved access to quality education	
<p><u>Indicator 1: Enrolment rate of 6-year-old children (in both public and private preschools, nationwide average)</u></p> <p><i>Baseline: 27.3% (school year 2017/2018)</i></p> <p><i>Target: 100% (school year 2021/2022)</i></p> <p><u>Indicator 3: Increased index of labor market relevance of higher education perceived by students and firms</u></p> <p><i>Baseline: 0</i></p> <p><i>Target: 20%</i></p>	<p>Lending: Improving General School and Pre-school Education Project (GPE-funded) Modernizing Higher Education Project <i>Early Childhood Education Project</i></p> <p>Analytical & Advisory Assistance: Analysis of Teacher Policy from Pre-Primary to Tertiary Education Education Sector Analysis</p> <p>Key Partners: ADB, British Council, DVV International EU, European Training Foundation, EU, GIZ, IsDB, KfW, UNESCO, UNICEF</p>
3.2 Improved access to quality health services	
<p><u>Indicator 1: Improved perceived quality of primary health care and secondary health care services</u></p> <p><i>Baseline: 85.5% (primary healthcare) and 69.5% (secondary healthcare)</i></p> <p><i>Target: 90% (primary healthcare) and 85% (secondary healthcare)</i></p>	<p>Lending: Health System Improvement Project Emergency Services Improvement Project</p> <p>IFC: Potential PPPs</p>

	Key Partners: ADB, British Council, DVV International EU, European Training Foundation, EU, GIZ, IsDB, KfW, UNESCO, UNICEF
3.3 Effective social safety nets	
<p><u>Indicator 1: Expanded coverage of family cash allowances:</u> <i>Baseline:</i> Budget includes funding for cash allowances to 435,500 families with minor children (below age 13) and financial support for low-income families. (March 2017) <i>Target:</i> 2019 Budget includes funding for cash allowances to 500,000 families with minor children (below age 13) and financial support for low-income families (June 2019)</p> <p><u>Indicator 2: Establish a comprehensive social registry to improve the social inclusion and targeting of social protection benefits (including social assistance cash transfers, social services, and labor market programs).</u> <i>Baseline:</i> 0 cases (2017) <i>Target:</i> 1,300,00 cases (2021)</p>	<p>Lending: Strengthening Social Protection Systems</p> <p>Analytical & Advisory Assistance: Supporting Uzbekistan's Inclusive Economic Reform Through Strengthening Social Protection Systems</p> <p>Key Partners: UNICEF</p>

ANNEX 2: Matrix of Changes to Original CPF Results Matrix

Original Outcomes	Revised and New Outcomes	Rationale for change
Focus Areas 1: Private sector growth	Focus Areas 1: Sustainable transformation towards a market economy	The scope of this Focus Area is revised to reflect expansion of the WBG support to new economic and social transition of Uzbekistan through economic liberalization and re-shaping the role of the state in the economy.
	<p>1.1 Enhanced economic growth and transition towards a market economy</p> <p><u>Indicator 1: Reduced exchange rate and monetary distortions</u> <i>Baseline:</i> 25% surrender requirement on foreign exchange from export earnings (September 2017) <i>Target:</i> None (June 2019)</p> <p><u>Indicator 2: Reduced difference between domestic average price for cotton and international market price</u> <i>Baseline:</i> More than 20% (September 2017) <i>Target:</i> Less than 10% (June 2019)</p> <p><u>Indicator 3: Reduced simple average customs tariff rates</u> <i>Baseline:</i> 15.3% (September 2017) <i>Target:</i> 8% (June 2019)</p>	<p>Added to reflect DPOs to be delivered in FY18 and FY19.</p> <p>Added to reflect DPOs to be delivered in FY18 and FY19 and new ASA program.</p> <p>Added to reflect DPOs to be delivered in FY18 and FY19.</p>
<p>1.1 Improved regulatory requirements for business</p> <p><u>Indicator 1: Time to export (border / documentary compliance)</u> <i>Baseline:</i> 112/74 hrs (DB 2016) <i>Target:</i> 45/67 hrs (DB 2020)</p>	<p>1.2 Improved regulatory requirements for business</p> <p><u>Indicator 1: Time to export (border / documentary compliance)</u> <i>Baseline:</i> 112/ 174 hours (DB 2016) <i>Target:</i> 45/67 hours (DB 2020)</p>	<p>No change.</p> <p>Baseline for documentary compliance was changed to correct the original figure in CPF.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
<p><u>Indicator 2: Time to get a construction permit</u> <i>Baseline:</i> 176 days (DB 2016) <i>Target:</i> 100 days (DB 2020)</p> <p><u>Indicator 3: Number of tax payments per year</u> <i>Baseline:</i> 33 (DB 2016) <i>Target:</i> 19 (DB 2020)</p>	<p><u>Indicator 2: Time to get a construction permit</u> <i>Baseline:</i> 258 days ¹⁵(DB 2016) <i>Target:</i> 100 days (DB 2020)</p>	<p>Baseline was changed to reflect the change in the DB methodology.</p> <p>This indicator is no longer required in the remainder of the CPF period.</p>
<p>1.2 Strengthened private sector access to finance</p> <p><u>Indicator 1: % of firms reported having a bank loan or line of credit</u> <i>Baseline:</i> 37.8 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 45% (2020)</p> <p><u>Indicator 2: % of firms using banks to finance investment</u> <i>Baseline:</i> 16.1 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 25% (2020)</p> <p><u>Indicator 3: % of firms with female participation in ownership</u> <i>Baseline:</i> 29.2% (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 31% (2020)</p> <p><u>Indicator 4: % of small firms with access to a credit line</u> <i>Baseline:</i> 57.9 (2015, CBU) <i>Target:</i> 70% (2020)</p>	<p>1.3 Strengthened access to finance and financial services for the private sector</p> <p><u>Indicator 1: % of firms using banks to finance investment</u> <i>Baseline:</i> 16.1 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 25% (2020)</p> <p><u>Indicator 2: % of firms with female participation in ownership</u> <i>Baseline:</i> 29.2% (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 31% (2020)</p>	<p>Modified.</p> <p>Dropped. Indicator was replaced by other indicators under the same of outcomes to reflect expanded engagement of IFC in banking sector.</p> <p>No change.</p> <p>No change.</p> <p>Dropped. Indicator was replaced by other indicators under the same of outcomes to reflect expanded engagement of IFC in banking sector.</p>

¹⁵ Indicator in original CPF is 176 days. The baseline was revised to reflect change in DB methodology.

Original Outcomes	Revised and New Outcomes	Rationale for change
	<p><u>Indicator 3: Volume of MSME loans</u> <i>Baseline:</i> 27,600 MSME loans, facilitating USD 480 million (2017) <i>Target:</i> 117,000 MSME loans, facilitating USD 976 million (2021)</p> <p><u>Indicator 4: Value of financing facilitated through IFC advisory projects</u> <i>Baseline:</i> 404.4 million (2017) <i>Target:</i> 517 million (2021)</p>	<p>Added to reflect expanded engagement of IFC in banking sector.</p> <p>Added to reflect expanded engagement of IFC in banking sector.</p>
<p>1.3 Increased private sector investments</p> <p><u>Indicator 1: Increase in overall sales of agribusinesses benefiting from WBG operations:</u> <i>Baseline:</i> 0 <i>Target:</i> 20% (2020)</p>		<p>Dropped due to addition of new indicators to measure outcome 1.4 “1.4 Improved diversification of agriculture production”.</p>
	<p>1.4 Improved diversification of agriculture production</p> <p><u>Indicator 1: Increased livestock productivity</u> <i>Baseline:</i> 0 (2015) <i>Target:</i> 15% (2021)</p> <p><u>Indicator 2: Increase in areas under horticulture, fodder crops and other crops (non- cotton/ wheat)</u> <i>Baseline:</i> 584,000 ha (2015) <i>Target:</i> 800,000 ha (2020)</p>	<p>Outcome definition expanded to reflect delivery of Livestock Development Project.</p> <p>Added to reflect delivery of Livestock Development Project.</p> <p>No change, but moved from the original Focus Area 2 – Outcome 2.2.</p>
<p>1.4 Enhanced corporate governance for facilitation of the efficient and transparent privatization process</p>		<p>Modified and moved to the Focus Area 2 – new Outcome 2.1.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
<p><u>Indicator 1: Establishment of improved corporate governance system at large SOEs</u> <i>Baseline:</i> No SOE with relevant corporate governance system in place (2015) <i>Target:</i> Five large SOEs have the corporate governance system established and audited IFRS (2020).</p> <p><u>Indicator 2: Number of SOEs divested by the Government</u> <i>Baseline:</i> None <i>Target:</i> 2</p>		<p>Dropped.</p> <p>Dropped since the privatization program was revisited by the authorities.</p>
	<p>1.5 Improved efficiency of infrastructure service delivery</p> <p><u>Indicator 1: Improved reliability of rail services (percentage of delays)</u> <i>Baseline:</i> 95% (2015) <i>Target:</i> 5% (2019)</p> <p><u>Indicator 2: International internet bandwidth per capita (kb/sec/prs)</u> <i>Baseline:</i> 2.1 Kbps (2016) <i>Target:</i> TBD (2021)</p> <p><u>Indicator 3: Improved users' perception of the quality of real property registration services</u> <i>Baseline:</i> 0 (2017) <i>Target:</i> 10% (2021)</p>	<p>Modified to capture new interventions in support of the Focus Area 1.</p> <p>No change.</p> <p>Added to reflect ongoing intervention.</p> <p>Added to reflect ongoing intervention.</p>
<p>1.5 Broadened policy dialogue on economic governance</p> <p><u>Indicator 1: The government will produce and publish estimates on the size of the middle class that</u></p>		<p>Dropped. This milestone/Intermediate indicator is no longer required in the remainder of the CPF period.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
are consistent with cross-country studies on the middle class. <i>Baseline:</i> No (2015) <i>Target:</i> Yes (2020)		
Focus Areas 2: Agriculture Competitiveness and Cotton Sector Modernization	Focus Areas 2: Reform of select state institutions and citizen engagement	The scope of this Focus Area is revised to support broader cross-cutting governance reforms in Uzbekistan
2.1 Increased efficiency in cotton sector through facilitation of a market-led modernization <u>Indicator 1: Cotton Productivity Increase</u> <i>Baseline:</i> 2.1t/ha (2015) <i>Target:</i> 2.7t/ha (2020)		Dropped. This milestone/Intermediate indicator is no longer required in the remainder of the CPF period.
	2.1 Enhanced corporate governance and strengthened financial sustainability of SOE <u>Indicator 1: Augmented budget outturns on tax expenditures, current spending and net lending to UE and UNG</u> <i>Baseline:</i> 1.2% of GDP and no IFRS compliant financial statements have been published (December 2017 – 2017 budget) <i>Target:</i> less than 0.6% of GDP and IFRS-compliant financial statements have been published for 2015 and 2016 (December 2018 – 2018 budget)	Modified and moved from original Focus Area 1 - Outcome 1.4. Added to reflect the delivery of DPOs.
	2.2 Increased access, efficiency and reliability of power supply and heating services	Modified to capture expanded interventions in energy sector. Partially moved from the original Focus Area 3 - Outcome 3.3. Added to reflect continued support in energy sector.

Original Outcomes	Revised and New Outcomes	Rationale for change
	<p><u>Indicator 1: Number of outages of major equipment in the target transmission substations per year</u> <i>Baseline: 103 times (2017)</i> <i>Target: 10 times (2024)</i></p> <p><u>Indicator 2: Improved energy efficiency in industrial enterprises (energy savings per year)</u> <i>Baseline: 0 GWh</i> <i>Target: 613 GWh (2023)</i></p> <p><u>Indicator 3: People served by improved and energy-efficient heating facilities in project areas (Andijan, Bukhara, Chirchik, Samarkand, and Sergeli District of Tashkent City)</u> <i>Baseline: 0 people (2017)</i> <i>Target: 240,000 people (2024)</i></p>	<p>Target was updated to capture scaling-up of the interventions on energy efficiency.</p> <p>Added to reflect continued support in energy sector.</p>
	<p>2.3 Improved access to and quality of water supply and sanitation services</p> <p><u>Indicator 1: Increased access to safe drinking water in urban and rural areas</u> <i>Baseline: 1.3 mln people</i> <i>Target: 2 mln people (2020)</i></p> <p><u>Indicator 2: Increased access to sanitation services in urban and rural areas</u> <i>Baseline: 0.55 mln people</i> <i>Target: 1.15 mln people (2020)</i></p>	<p>No change, but moved from the original Focus Area 3 - Outcome 3.2.</p> <p>No change.</p> <p>No change.</p>
	<p>2.5 Strengthened citizen participation in oversight of public service delivery</p>	<p>New outcome and new indicators related to effective citizen participation added to reflect scaling up of work in this area.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
	<p><u>Indicator 1: Number of projects integrating elements of National Citizen Engagement Framework</u> <i>Baseline: 0 (2017)</i> <i>Target: 4 (2021)</i></p> <p><u>Indicator 2: Percentage of community-based subprojects supported through Ferghana Regional Development Project selected by communities and meeting priority community needs</u> <i>Baseline: 0 (2017)</i> <i>Target: 75% (2020)</i></p>	
Focus Areas 3: Public Service Delivery	Focus Areas 3: Investing in people	The scope of this Focus Area is revised to better reflect increased focus on building human capital and citizen engagement agenda
<p>3.1 Improved access to quality education and health services</p> <p><u>Indicator 1: Improved perceived quality of primary health care and secondary health care services</u> <i>Baseline: 85.5% (primary healthcare) and 69.5% (secondary healthcare)</i> <i>Target: 90% (primary healthcare) and 85% (secondary healthcare)</i></p> <p><u>Indicator 2: Percentage of children aged 3-6 enrolled in early childhood care and education in rural areas</u> <i>Baseline: 25.4% (2015)</i> <i>Target: 40% (2020)</i></p>	<p>3.1 Improved access to quality education</p> <p><u>Indicator 1: Enrolment rate of 6-year-old children (in both public and private preschools, nationwide average)</u> <i>Baseline: 27.3% (school year 2017/2018)</i> <i>Target: 100% (school year 2021/2022)</i></p>	<p>Modified to better focus on education sector deliveries.</p> <p>No change.</p> <p>Modified to better reflect objectives.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
<p><u>Indicator 3: Increased index of labor market relevance of higher education perceived by students and firms</u> <i>Baseline: 0</i> <i>Target: 20%</i></p>	<p><u>Indicator 2: Increased index of labor market relevance of higher education perceived by students and firms</u> <i>Baseline: 0</i> <i>Target: 20%</i></p>	No change.
	<p>3.2 Improved access to quality health services</p> <p><u>Indicator 1: Improved perceived quality of primary health care and secondary health care services</u> <i>Baseline: 85.5% (primary healthcare) and 69.5% (secondary healthcare)</i> <i>Target: 90% (primary healthcare) and 85% (secondary healthcare)</i></p>	<p>Objective was separated from education outcomes.</p> <p>No change.</p>
<p>3.2 Increased access to improved water supply and sanitation services</p> <p><u>Indicator 1: Increased access to safe drinking water in urban and rural areas.</u> <i>Baseline: 1.3 mln people</i> <i>Target: 2 mln people</i></p> <p><u>Indicator 2: Increased access to sanitation services in urban and rural areas.</u> <i>Baseline: 0.55 mln people</i> <i>Target: 1.15 mln people</i></p>		No change, but moved to the revised Focus Area 2 - Outcome 2.3.
	<p>3.3 Effective social safety nets</p> <p><u>Indicator 1: Expanded coverage of family cash allowances:</u> <i>Baseline: Budget includes funding for cash allowances to 435,500 families with minor</i></p>	Added to reflect engagement in new area and future delivery of Strengthening Social Protection System Project.

Original Outcomes	Revised and New Outcomes	Rationale for change
	<p>children (below age 13) and financial support for low-income families (March 2017). <i>Target:</i> 2019 Budget includes funding for cash allowances to 500,000 families with minor children (below age 13) and financial support for low-income families (June 2019).</p> <p><u>Indicator 2: Establish a comprehensive social registry to improve the social inclusion and targeting of social protection benefits (including social assistance cash transfers, social services, and labor market programs).</u> <i>Baseline:</i> 0 cases (2017) <i>Target:</i> 1,300,00 cases (2021)</p>	
<p>3.3 Improved energy efficiency</p> <p><u>Indicator 1: Reduction of electricity technical losses</u> <i>Baseline:</i> 25% <i>Target:</i> 20%</p> <p><u>Indicator 2: Energy saving resulting from energy efficiency investments</u> <i>Baseline:</i> 0 MWh <i>Target:</i> 550,000 MWh</p>		<p>This indicator is no longer required in the remainder of the CPF period since relevant project was dropped.</p> <p>Modified and moved to Focus area 2 (outcome 2.2) to reflect scale up of interventions in the sector.</p>
<p>3.4 Increased reliability and reduced cost of transport and improved efficiency of infrastructure service delivery</p> <p><u>Indicator 1: Improved reliability of rail services (percentage of delays)</u> <i>Baseline:</i> 95% (2015) <i>Target:</i> 5% (2019)</p>		<p>Modified to capture collaboration on digital agenda. Partially moved to the revised Focus Area 1 - Outcome 1.5.</p> <p>No change, but moved to the revised Focus Area 1 - Outcome 1.5.</p>

Original Outcomes	Revised and New Outcomes	Rationale for change
<p><u>Indicator 2: Reduction in road user costs on regional roads (vehicle operating costs for cars USD/km)</u> <i>Baseline:</i> 0.27 (2015) <i>Target:</i> 0.21 (2020)</p> <p><u>Indicator 3: Asset management system developed and used in targeted cities</u> <i>Baseline:</i> No <i>Target:</i> Yes</p>		<p>Dropped. Indicator no longer required in the remainder of the CPF period.</p> <p>Dropped. Indicator no longer required in the remainder of the CPF period.</p>

ANNEX 3: Matrix Summarizing Changes towards CPF

Focus Areas 1: Sustainable transformation towards a market economy		
CPF Objectives	Progress to Date	Key WBG Activities
<p>1.1 Enhanced economic growth and transition towards a market economy</p> <p><u>Indicator 1: Reduced exchange rate and monetary distortions</u> <i>Baseline:</i> 25% surrender requirement on foreign exchange from export earnings (September 2017) <i>Target:</i> None (June 2019)</p> <p><u>Indicator 2: Reduced difference between domestic average price for cotton and international market price</u> <i>Baseline:</i> More than 20% (September 2017) <i>Target:</i> Less than 10% (June 2019)</p> <p><u>Indicator 3: Reduced simple average customs tariff rates</u> <i>Baseline:</i> 15.3% (September 2017) <i>Target:</i> 8% (June 2019)</p>	<p><i>Progress:</i> Foreign exchange market reform launched in September 2017. ON TRACK</p> <p><i>Progress:</i> NOT YET DUE</p> <p><i>Progress:</i> NOT YET DUE</p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Financial Sector TA Strengthening Banking Regulations Support Transition to Market Economy Welfare Monitoring Uzbekistan Public Expenditure Review Investment Climate Reform PER</p> <p>Key Partners: ADB, EBRD, EU</p>
<p>1.2 Improved regulatory requirements for business</p> <p><u>Indicator 1: Time to export (border / documentary compliance)</u> <i>Baseline:</i> 112/ 174 hours (DB 2016) <i>Target:</i> 45/67 hours (DB 2020)</p>	<p><i>Progress:</i> zero - 112/174 (DB2018). NOT ON TRACK ONGOING. The Bank provided assistance to GOU to improve customs clearance and address other non-tariff barriers. New Investment Climate ASAs and proposed DPOs, advisory assistance to re-start of WTO negotiations and dialogue on DB are expected to help GOU to better plan for and implement trading across borders reforms.</p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Investment Climate Reform (DB, Competition protection, Special Economic Zones)</p> <p>Key Partners: EBRD, EU, UNDP</p>

<u>Indicator 2: Time to get a construction permit</u> <i>Baseline:</i> 258 days ¹⁶ (DB 2016) <i>Target:</i> 100 days (DB 2020)	<i>Progress:</i> 246 (DB2018). ON TRACK	
1.3 Strengthened access to finance and financial services for the private sector <u>Indicator 1: % of firms using banks to finance investment</u> <i>Baseline:</i> 16.1 (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 25% (2020) <u>Indicator 2: % of firms with female participation in ownership</u> <i>Baseline:</i> 29.2% (2013 – to be updated in 2017 from 2016 Enterprise Survey data) <i>Target:</i> 31% (2020) <u>Indicator 3: Volume of MSME loans</u> <i>Baseline:</i> 27,600 MSME loans, facilitating USD 480 million (2017) <i>Target:</i> 117,000 MSME loans, facilitating USD 976 million (2021) <u>Indicator 4: Value of financing facilitated through IFC advisory projects</u> <i>Baseline:</i> 404.4 million (2017) <i>Target:</i> 517 million (2021)	<i>Progress:</i> indicators will be updated following 2018 Enterprise Survey data (no survey was conducted in 2016). TO BE UPDATED <i>Progress:</i> indicators will be updated following 2018 Enterprise Survey data (no survey was conducted in 2016). TO BE UPDATED <i>Progress:</i> NOT YET DUE <i>Progress:</i> NOT YET DUE	Lending: Additional Financing for Horticulture Development Project Livestock Development Project <i>Transition to Market Economy DPO-1</i> <i>Transition to Market Economy DPO-2</i> <i>Institutional Building TA Loan</i> Analytical & Advisory Assistance: Financial Sector TA Strengthening Banking Regulations Support Transition to Market Economy Investment Climate Reform IFC: Hamkorbank UZBEK LEASING Uzbekistan FM Infrastructure ECA Banking RM Ipoteka Bank Transformation <i>Potential new investment and advisory interventions</i> Key Partners: EBRD
1.4 Improved diversification of agriculture production		Lending:

¹⁶ Indicator in original CPF is 176 days. The baseline was revised to reflect change in DB methodology.

<p><u>Indicator 1: Increased livestock productivity</u> <i>Baseline: 0 (2015)</i> <i>Target: 15% (2021)</i></p> <p><u>Indicator 2: Increase in areas under horticulture, fodder crops and other crops (non- cotton/ wheat)</u> <i>Baseline: 584,000 ha (2015)</i> <i>Target: 800,000 ha (2020)</i></p>	<p><i>Progress: NOT YET DUE.</i></p> <p><i>Progress: 716,000 ha (April 2018). ON TRACK</i></p>	<p>Additional Financing for Horticulture Development Project Livestock Development Project Agriculture Modernization and Competitiveness Project South Karakalpakstan Water Resources Management Improvement Project Ferghana Valley Water Resource Management Project-Phase 2 Transition to Market Economy DPO-1 Institutional Building TA Loan</p> <p>Analytical & Advisory Assistance: Agriculture Modernization Strategy Assessing constraints and opportunities for socially responsible cotton intensification and mechanization Third Party Monitoring in Cotton Sector Water Resources Assessment Regional Irrigation Efficiency Study</p> <p>IFC: Indorama Central Asia Agri-finance Project New Uzbekistan Sustainable Cotton AS (linked to Indorama Textile) Potential new investment and advisory engagements in support agribusiness</p> <p>Key Partners: ADB, AFD, EU, FAO, CGIAR, GIZ, IFAD, IsDB, JICA, SECO, UNDP, USAID</p>
<p>1.5 Improved efficiency of infrastructure service delivery</p>	<p><i>Progress: 10% (January 2018). ON TRACK</i></p>	<p>Lending: Pap-Angren Railway Project Regional Roads Development Project Digital CASA</p>

<p><u>Indicator 1: Improved reliability of rail services (percentage of delays)</u> <i>Baseline: 95% (2015)</i> <i>Target: 5% (2019)</i></p> <p><u>Indicator 2: International internet bandwidth per capita (kb/sec/prs)</u> <i>Baseline: 2.1 Kbps (2016)</i> <i>Target: TBD (2021)</i></p> <p><u>Indicator 3: Improved users' perception of the quality of real property registration services</u> <i>Baseline: 0 (2017)</i> <i>Target: 10% (2021)</i></p>	<p><i>Progress: NOT YET DUE</i></p> <p><i>Progress: NOT YET DUE</i></p>	<p>Modernization of Property Registration and Cadastre Project <i>Medium-Sized Cities Integrated Urban and Territorial Development Project</i></p> <p>Analytical & Advisory Assistance: Transport Sector Strategy Support to the Land Administration and Geospatial Modernization TA Project Strengthening Disaster Resilience in Uzbekistan Sustainable Urban and Regional Development Program</p> <p>IFC: <i>Potential PPPs</i> <i>Support for privatizations and investments</i> <i>Potential Advisory Services to help address trade policy and procedure barriers</i></p> <p>Key Partners: ADB, EIB, EBRD, IsDB, Korean Exim Bank</p>
Focus Area 2: Reform of select state institutions and citizen engagement		
CPF Objectives	Progress to Date	CPF Instruments and Partners
<p>2.1 Enhanced corporate governance and strengthened financial sustainability of SOEs</p> <p><u>Indicator 1: Augmented budget outturns on tax expenditures, current spending and net lending to UE and UNG</u> <i>Baseline: 1.2% of GDP and no IFRS compliant financial statements have been published (December 2017 – 2017 budget)</i> <i>Target: less than 0.6% of GDP and IFRS-compliant financial statements have been</i></p>	<p><i>Progress: NOT YET DUE</i></p>	<p>Lending: <i>Transition to Market Economy DPO-1</i> <i>Institutional Building TA Loan</i></p> <p>Analytical & Advisory Assistance: Energy Tariffs in Uzbekistan: Impact & Way Forward Strategic Advisory on Improvement of Corporate Governance PEFA PER</p>

published for 2015 and 2016 (December 2018 - 2018 budget)		Key Partners: ADB, EBRD, EU
<p>2.2 Increased access, efficiency and reliability of power supply and heating services</p> <p><u>Indicator 1: Number of outages of major equipment in the target transmission substations per year</u> <i>Baseline:</i> 103 times (2017) <i>Target:</i> 10 times (2024)</p> <p><u>Indicator 2: Improved energy efficiency in industrial enterprises (energy savings per year)</u> <i>Baseline:</i> 0 GWh <i>Target:</i> 613 GWh (2023)</p> <p><u>Indicator 3: People served by improved and energy-efficient heating facilities in project areas (Andijan, Bukhara, Chirchik, Samarkand, and Sergeli District of Tashkent City)</u> <i>Baseline:</i> 0 (2017) <i>Target:</i> 240,000 people (2024)</p>	<p><i>Progress:</i> NOT YET DUE</p> <p><i>Progress:</i> 227 GWh (September 2017). ON TRACK</p> <p><i>Progress:</i> NOT YET DUE</p>	<p>Lending: Additional Financing for Energy Efficiency for Industrial Enterprises District Heating Energy Efficiency Modernization & Upgrade of Transmission Substations</p> <p>Analytical & Advisory Assistance: Energy Sector Development Note Development of a National Industrial Energy Management Plan Power System Dispatch & Renewable Energy Integration Small & Medium Hydropower Development Program Urban Heating Strategy for Uzbekistan</p> <p>IFC: Advisory Services on IDA Central Asia Energy Infrastructure <i>PPPs in solar energy and potential investments in municipal infrastructure</i></p> <p>Key Partners: ADB, EBRD, JICA</p>
<p>2.3 Improved access to and quality of water supply and sanitation services</p> <p><u>Indicator 1: Increased access to safe drinking water in urban and rural areas</u> <i>Baseline:</i> 1.3 mln people <i>Target:</i> 2 mln people (2020)</p>	<p><i>Progress:</i> 1.37 mln people (March 2018). ON TRACK</p> <p><i>Progress:</i> 0.92 mln people (March 2018). ON TRACK</p>	<p>Lending: Syrdarya Water Supply Project Additional Financing for Bukhara & Samarkand Sewerage Project Alat & Karakul Water Supply Project. <i>Water Supply & Sanitation and Institutional Building Program – Phase 1</i></p> <p>Analytical & Advisory Assistance:</p>

<u>Indicator 2: Increased access to sanitation services in urban and rural areas</u> <i>Baseline: 0.55 mln people</i> <i>Target: 1.15 mln people (2020)</i>		National Water Supply Source and Demand Assessment Key Partners: ADB, EIB, EBRD, French Development Agency, IsDB, OPEC, Saudi Development Fund, SDC
2.4 Strengthened citizen participation in oversight of public service delivery <u>Indicator 1: Number of projects integrating elements of National Citizen Engagement Framework</u> <i>Baseline: 0 (2017)</i> <i>Target: 4 (2021)</i> <u>Indicator 2: Percentage of community-based subprojects supported through Ferghana Regional Development Project selected by communities and meeting priority community needs</u> <i>Baseline: 0% (2017)</i> <i>Target: 75% (2021)</i>	<i>Progress: NOT YET DUE.</i> Baseline indicator will be established in FY19, through Listening to Citizens of Uzbekistan baseline survey. <i>Progress: NOT YET DUE.</i>	Lending: Fergana Regional Development Project Analytical & Advisory Assistance: Listening to Uzbekistan Third Party Monitoring in Cotton Sector Support to Development of National Citizen Engagement Framework Key Partners: State Investment Committee, Development Strategy Center, Women's Committee, Federation of Trade Unions
Focus Area 3: Investing in people		
CPF Objectives	Progress to Date	CPF Instruments and Partners
3.1 Improved access to quality education <u>Indicator 1: Enrolment rate of 6-year-old children (in both public and private preschools, nationwide average)</u> <i>Baseline: 27.3% (school year 2017/2018)</i> <i>Target: 100% (school year 2021/2022)</i> <u>Indicator 2: Increased index of labor market relevance of higher education perceived by students and firms</u> <i>Baseline: 0</i>	<i>Progress: NOT YET DUE.</i> <i>Progress: NOT YET DUE.</i> Baseline indicator will be defined in FY19 (CY2018)	Lending: Improving General School and Pre-school Education Project (GPE-funded) Modernizing Higher Education Project <i>Early Childhood Education Project</i> Analytical & Advisory Assistance: Analysis of Teacher Policy from Pre-Primary to Tertiary Education Education Sector Analysis

ANNEX 4: CPF Lending Program: Envisaged and Actual/Planned Deliveries

CPF Lending Program FY16-20 (Planned) (US\$ million)				CPF PLR FY16-21 Lending Program (Actual/Planned) (US\$ million)		
FY16	IBRD	IDA	Notes	FY16	IBRD	IDA
Modernizing Higher Education		42.2		Modernizing Higher Education		42.2
Modernization of Real Property and Cadastre		20		Modernization of Real Property and Cadastre		20
Total FY16		62.2		Total FY16	0	62.2
FY17				FY17		
Ferghana Valley Water Resource Management		211		Ferghana Valley Water Resource Management		144.9
Modernization and Upgrade of Transmission Substations	185			Modernization and Upgrade of Transmission Substations	92	58
Livestock Development Project		150		Livestock Development Project	30	120
District Heating Energy Efficiency		140	Delivered in FY18			
Navoi-Kanimech Railway Project	115		Dropped			
Electricity Distribution Networks Rehabilitation	155		Dropped			
Total FY17	455	501		Total FY17	122	322.9
FY18				FY18		
Energy Efficiency for Indust.Enterprises-3		100		Energy Efficiency for Indust.Enterprises-3	200	
Emergency Health Services Improvement		55		Emergency Health Services Improvement		100 ¹⁷
Agriculture Modernization	200		Moved to FY20	District Heating Energy Efficiency		140
Jobs & Skills for Modern Economy		100	Moved to FY19	AF for Horticulture Development	500	
Reconstruction of Sewerage Networks of Nukus and Takhiatash		50	Moved to FY20	Transition to Market Economy DPO-1		500
Renewable Energy (wind/solar)	100		Dropped			
Total FY18	300	305		Total FY18	700	740

¹⁷ This allocation includes \$45 million cancelled from the Health System Improvement project (P113349)

CPF Lending Program FY16-20 (Planned) (US\$ million)				CPF PLR FY16-21 Lending Program (Actual/Planned) (US\$ million)		
FY19				FY19		
Integrated Urban Development	100			Integrated Urban Development	100	
Vocational Education Project		50		Promoting Early Childhood Development		50
Rural Development Project		112		Ferghana Valley Regional Development	150	150
Energy Efficiency - Phase 4		100	Delivered in FY18	Strengthening Social Protection System		50
Roads Development Project Phase 2	200		Dropped	Transition to Market Economy DPO-2	500	
				Institutional Building TA		10
Total FY19	300	262		Total FY19	750	260
FY20				FY20		
Roads Development Project Phase 3	200		Dropped	Agriculture Modernization	TBC	TBC
Water Supply and Sanitation		200		WSS and Institutional Program Loan-1	TBC	TBC
Private Sector Development	20		Dropped	Digital CASA (Regional Project)	TBC	TBC
Energy Efficiency Phase 5		100	Dropped	Innovation Commercialization Project	TBC	TBC
Total FY20	220	300		Total FY20	TBC	TBC
				FY21	IBRD	IDA
				Reforms for Transition DPO-3	TBC	TBC
				Institutional Building TA Project-2	TBC	TBC
				Integrated Urban Development Project-2	TBC	TBC
				Village Improvement Project	TBC	TBC
				Total FY21	TBC	TBC
Total Lending FY16-20 (Planned): 2,705.2	1,275	1,430.2		Lending FY16-19 (Actual and Planned)*: 2,9571.1	1,572	1,385.1

*Actual and planned amounts do not include financing for FY20-FY21 which is yet to be defined during identification and preparation of proposed projects.

ANNEX 5: CPF AAA Program: Envisaged and Actual/Planned Deliveries

Original Tasks	Global Practice	Actual/Planned Tasks
FY16 delivery		
Agriculture Modernization Strategy	Agriculture	Agriculture Modernization Strategy
	Governance	SOE Governance Roundtable
	SURR	Labor Modernization-Cotton Harvest
	SPL	Modernizing Safety Nets
Meeting Uzbekistan's commitments to COP21 in railways & roads	Transport & Digital Development	Meeting Uzbekistan's commitments to COP21 in railways & roads
FY17 delivery		
Energy Planning Study	Energy & Extractives	Energy Planning Study
	Energy & Extractives	Scaling-up EE in Buildings
Survey on MSMS' demand for financing	FCI	Survey on MSMS' demand for financing
SOE Corporate Governance TA (Review & assessment of the current framework as agreed in the Roadmap signed between the Bank & the Government)	Governance	SOE Corporate Governance TA (Review & assessment of the current framework as agreed in the Roadmap signed between the Bank & the Government)
Assessment & Strategy Development for Public Sector Internal Audit	Governance	Assessment & Strategy development for Public Sector Internal Audit
Fiduciary review of the Waterer Sector (covering fiduciary performance & governance of the sector & identifying systemic weaknesses)	Governance	Fiduciary review of the Waterer Sector (covering fiduciary performance & governance of the sector & identifying systemic weaknesses)
Doing Business Reform	MTI	Doing Business Reform
Programmatic Welfare Monitoring in Middle Income Countries	Poverty	Programmatic Welfare Monitoring in Middle Income Countries
Pathways to the Global Middle Class	Poverty	Pathways to the Global Middle Class
Firm skills needs assessment (firm STEP)	SPL	Firm skills needs assessment (firm STEP)
Evaluation of flexible wage subsidy program for cotton picking	SPL	Evaluation of flexible wage subsidy program for cotton picking
Assessment of national pension system (fiscal sustainability, equity, efficiency, etc.), including reform options (on-going discussion with the MOF & Pension Fund)	SPL	Assessment of national pension system (fiscal sustainability, equity, efficiency, etc.), including reform options (on-going discussion with the MOF & Pension Fund)
Study of the role of mahallas in delivering social services & ways to improve coordination with the line ministries	SPL	Study of the role of mahallas in delivering social services & ways to improve coordination with the line ministries
Uzbekistan Trade Logistics	SPL/SURR	Uzbekistan Trade Logistics

Assessing barriers for strengthening rural women livelihoods in low-income areas of Uzbekistan	SURR	Assessing barriers for strengthening rural women livelihoods in low-income areas of Uzbekistan
WSS Sector Policy Recommendations Dissemination	Water	WSS Sector Policy Recommendations Dissemination
Waterer Sector Reforms Diagnostics & Support Plan	Water	Waterer Sector Reforms Diagnostics & Support Plan
Knowledge Sharing & Capacity Strengthening for Utility Managers	Water	Knowledge Sharing & Capacity Strengthening for Utility Managers
FY18 delivery		
Assessing constraints and opportunities for socially responsible cotton intensification and mechanization	Agriculture	Assessing constraints and opportunities for socially responsible cotton intensification and mechanization
Review of vocational education challenges and opportunities	Education	Review of vocational education challenges and opportunities
Innovative learning environments in pre-university education	Education	Innovative learning environments in pre-university education
Support the Development of a National Industrial Energy Management Program	Energy & Extractives	Support the Development of a National Industrial Energy Management Program
Energy Tariffs in Uzbekistan: Impact and the Way Forward	Energy & Extractives	Energy Tariffs in Uzbekistan: Impact and the Way Forward
Energy Sector Development Note	Energy & Extractives	Energy Sector Development Note (moved to FY19)
Enhancing natural resource management through landscape approaches	Environment & Natural Resources	Enhancing natural resource management through landscape approaches
	FCI	Investment Climate & Competition Reform
Public Expenditure and Financial Accountability (PEFA) assessment; systematic diagnostic of the Public Financial Management (PFM) system	Governance	Public Expenditure and Financial Accountability (PEFA) assessment; systematic diagnostic of the Public Financial Management (PFM) system
Accounting and ROSC	Governance	Accounting and ROSC
	Governance	Improving Public Procurement Outcomes
Enhancement of e-GP in Uzbekistan	Governance	Strengthening of Public Procurement in Uzbekistan
	Governance	Support for Creation Sustainable Procurement Capacity Building in Uzbekistan
Health Sector Review	HNP	Health Sector Review
Programmatic CEM: Pacing of Market Reforms in Uzbekistan	MTI	Programmatic CEM: Pacing of Market Reforms in Uzbekistan
	MTI	Uzbekistan - Growth Diagnostics
	MTI	Uzbekistan FX Convertibility
	MTI	Support to Transition to a Market Economy
Small and medium business support program options	MTI	Small and medium business support program options
Study of informality, both urban and rural	SPL	Study of informality, both urban and rural
Evaluation of the safety net programs in Uzbekistan (coverage, targeting, impact, efficiency)	SPL	Evaluation of the safety net programs in Uzbekistan (coverage, targeting, impact, efficiency)

	SURR	Support to Developing National CE Framework
Improving connectivity and logistics services in Uzbekistan	Transport & Digital Development	Improving connectivity and logistics services in Uzbekistan
Tashkent urban transport strategy and action plan	Transport & Digital Development	Tashkent urban transport strategy and action plan
WASH Poverty Diagnostics	Water	WASH Poverty Diagnostics
Performance Measurement in Irrigated Agriculture	Water	Performance Measurement in Irrigated Agriculture
FY19		
	Agriculture	<i>Agriculture Modernization Strategy</i>
Analysis of teachers' policy from preprimary to tertiary education	Education	<i>Analysis of teachers' policy from preprimary to tertiary education</i>
	Education	<i>Education Sector Analysis</i>
Scale-up of Renewable Energy Sources	Energy & Extractives	<i>Power System Dispatch and Renewable Energy Integration</i>
	Energy & Extractives	<i>Strategic Advisory on Improvement of Corporate Governance</i>
	Energy & Extractives	<i>Small and Medium Hydropower Development Program</i>
	Energy & Extractives	<i>Urban Heating Strategy for Uzbekistan</i>
	Energy & Extractives	<i>Energy Strategy and SOE reforms</i>
	FCI	<i>Financial sector TA</i>
	FCI	<i>Strengthening banking regulations</i>
	MTI	<i>Support transition to market economy</i>
	MTI	<i>Welfare Monitoring</i>
Investment Climate Reform	MTI	<i>Investment Climate Reform</i>
	Poverty & Equity	<i>Listening to Uzbekistan</i>
Disaster Risk Management	SURR	<i>Disaster Risk Management</i>
	SURR	<i>TPM in Cotton Sector</i>
	SURR	<i>Citizen Engagement Framework</i>
	Transport & Digital Development	<i>Transport Sector Strategy for Uzbekistan</i>
National Water Supply Source and Demand Assessment	Water	<i>National Water Supply Source and Demand Assessment</i>
Water Resources Assessment	Water	<i>Water Resources Assessment</i>
FY20		
	MTI	<i>Uzbekistan PER</i>
	MTI	<i>Public Investment Review</i>
	Energy & Extractives	<i>Programmatic TA on Renewable Energy Development</i>

	SPL	<i>Supporting Uzbekistan's inclusive economic growth through strengthening social protection system</i>
	SURR	<i>Citizen Engagement and the Private Sector</i>
	SURR	<i>Sustainable Urban & Regional Development</i>
Total ASA Tasks (original plan): 45		Total ASA Tasks (actual/planned delivery): 51

ANNEX 6. Citizen Engagement

1. **The context for citizen engagement in Uzbekistan has shifted dramatically since the beginning of the CPF period.** In December 2016, the government announced the year of 2017 as the “Year of Dialogue with the People,” and initiated a wide range of initiatives to facilitate citizen complaints on all public authorities and public services. This included, inter alia, the “virtual receptions” by the Presidential Administration and other line ministries.¹⁸ In addition, the Five-Area Development Strategy for 2017-2021 includes a number of actions to promote feedback on service delivery, information provision and consultative policy-making: service delivery, law enforcement and supervisory authorities are required to introduce “People’s Receptions”; line ministries must release government data including on economy, finance, education, healthcare (data.gov.uz); and an e-participation platform (regulation.gov.uz) enables the public to comment on draft legislation.¹⁹
2. Among the recent initiative of the Government designed to strengthen the dialogue with the public was a launch of an online petition platform called Mening Fikrim (My Opinion) in April 2017, enabling citizens to initiate certain national and regional legislative acts to improve situation in areas the public is concerned with. The idea was voiced by President Mirziyoyev, who proposed to create the platform “as an advanced form of democracy” in his end-of-year address to the Parliament in December 2017.
3. To strengthen civil society, the Strategy also makes mentions of an advisory council for CSOs, strengthened citizens’ self-governing bodies, and the use of media, as well as open hours, to raise issues related to public service provision. Starting from June 1, 2018, the rules for the operation of NGOs in Uzbekistan to be simplified in line with a presidential decree. Specifically, NGOs will no longer have to get their planned events approved by the Justice Ministry. They will simply have to notify it of their plans. An electronic system for submitting NGOs’ electronic documents for various purposes is to be developed and introduced by the end of 2018. NGOs’ reporting procedures were also simplified. Supervisory bodies were ordered to significantly reduce administrative fines for breaking laws. The decree instructs to reduce paperwork and eliminate red-tape in the operation of NGOs.
4. There are also signs of increased media freedom. And communication with the public at large has increased as well, with governmental bodies and officials at all levels making extensive use of social media.
5. This shift in the enabling environment has enabled efforts to establish and operationalize channels for public feedback, yielding encouraging results in a limited period; some government authorities have exhibited a new openness to address feedback, particularly on service delivery issues. However, implementation challenges remain. First, while the rhetoric of citizen engagement and public accountability has been clear at the national level, the implementation of this policy at the regional and local levels has been uneven. Local and regional officials often lack knowledge and capacity to operationalize proposed engagement processes. Second, the majority of mechanisms are currently focused on case-by-case complaint resolution – citizens’ complaints do not yet inform concrete policy or procedural change. Third, while complaint resolution mechanisms have become highly popular, open and transparent public discourse on systemic challenges and needs is still limited, and the public service performance requirements and standards are not transparent. Lastly, given the capacity challenges at the local level, the GoU’s intention to go beyond grievance redress mechanisms and engage citizens in participatory planning and/or monitoring of government performance vis a vis service delivery, is likely to raise considerable challenges.

¹⁸ The presidential “Virtual Reception” (<https://pm.gov.uz>) invites citizen complaints on any topic, forwards complaints to relevant line ministries. By end April 2018, nearly 1,850,000 inquiries and complaints were submitted to the Presidential VR, 97% “considered” by relevant authorities.

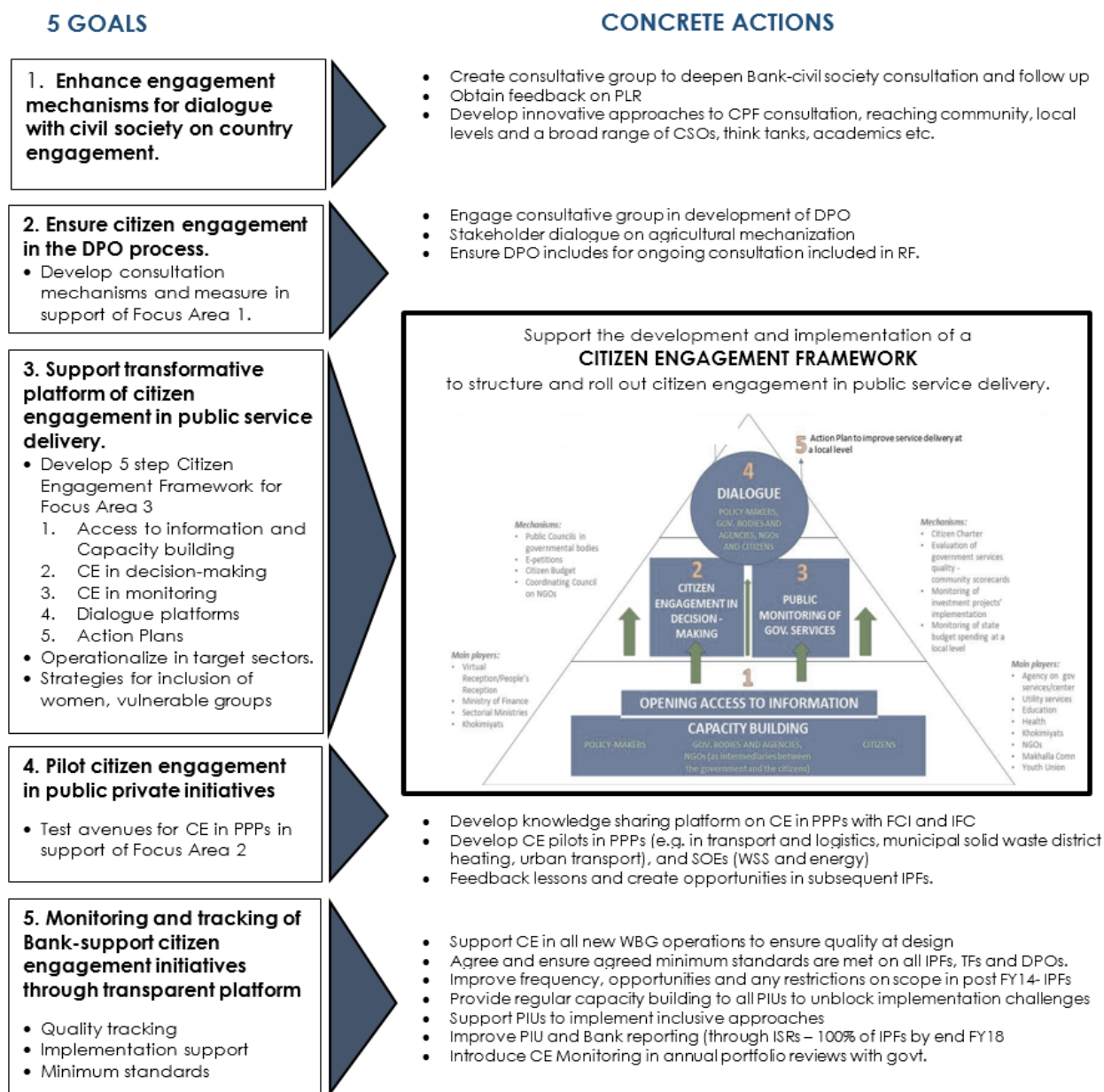
¹⁹ The Law on Public Control, creation of Public Councils at all state bodies, introduction of local councils, establishing an Advisory Council for Development of Civil Society,. GoU has interest in strengthening the work of NGOs and local authorities. The 2018 “Year of Support to Active Entrepreneurship, Innovative Ideas and Technologies” has an explicit focus on deepening and institutionalizing mechanisms for citizen feedback and public oversight.

6. Despite the difficult enabling environment, the Bank had already started its efforts to ramp up citizen engagement in line with the *Strategic Framework for Mainstreaming Citizen Engagement in WBG Operations*. In the FY16-20 CPF, the WBG committed to ensuring opportunities for citizen engagement through functional, transparent and responsive GRMs in Bank-financed operations, where possible, strengthening ministry systems, and committed to explore other mechanisms in water supply, energy, irrigation and property registration and higher education, as well as strengthening the voice of women. During this period, six IPFs were prepared and all were compliant with the corporate requirements. Although the quality of design improved significantly on the previous period (enabling annual feedback, introducing alternative channels to safeguards GRMs, opening GRMs to any of complaint), increasing Uzbekistan's quality index since FY14 to 2.1 (against ECA FY17 average of 2.0),²⁰ the depth of engagement however is limited with few concrete opportunities for beneficiaries to engage actively. GRMs have not always been well used, producing limited results. This may be due to insufficient citizen awareness and a citizen preference to utilize national level mechanisms. Moreover, slow project implementation, limited any planned roll out of constructive engagement platforms. Nevertheless, the current portfolio supports many projects with citizen-oriented designs which have the potential for improved results, especially when operationalized in the emerging context.

7. **Efforts to support citizen engagement during the CPF FY19-21 will be vastly enhanced, while strengthening government systems.** In the context of government's approach to CE, the Bank has started collaborating with several ministries on a National Citizen Engagement Framework to support the national CE agenda. This CE Framework will consist of innovative mechanisms for informed CE, including both supply side support (information generation and awareness building) and demand side support (participatory decision-making, citizen monitoring) of public services. It will also emphasize ongoing dialogue between citizens and government authorities. Bank-financed IPFs (education, water, health, energy, and social development) will form the first set of vehicles for operationalization of the Framework and build capacity for implementation at national and local levels.

²⁰ The ECA Citizen Engagement Quality Index measures quality of CE during implementation against four objective criteria on a 1-3 scale. The criteria are for unrestricted feedback, depth of engagement, multiple channels for feedback, and frequency of feedback.

Figure 1: Citizen Engagement



ANNEX 7: LABOUR PRACTICES IN COTTON SUB-SECTOR

1. The GoU is progressively reforming the cotton sector in line with the Government's Development Strategy for 2017-2021 which calls for deepening structural reforms in the agricultural sector, optimizing cultivated areas, creating the favorable conditions for the development of diversified farms and deepening agro-processing and value addition. In 2016, the Government initiated a five-year plan to remove less productive land from the mandatory production of cotton and wheat. When completed in 2021, 300,000 and 50,000 hectares will have been removed from cotton and wheat respectively, representing 15 percent of the total cotton/wheat area. In line with the Government's strategy to encourage agricultural diversification, these areas have been reassigned to the cultivation of less water-demanding and higher value crops.

2. Increase in cotton procurement price and wages to cotton pickers create more favorable conditions for market led recruitment of pickers. Wages to cotton pickers were increased from 280/kg soum in 2016 to 700 soum/kg in 2017 (250%), and in 2018 cotton procurement price has been increased by 90 percent comparing to 2017 whereby farmers should now receive close to 80 percent of the international market price as opposed to 60 percent in previous years. Cotton farmers' debts have been postponed for 3 years with write-off of their accrued penalties. Respective amendments were made to Tax Code of Uzbekistan by introducing tax exemptions for cotton pickers: no obligation to pay previously mandatory social contributions (8%) and employers not obliged to pay Single Social Contributions (15%).

3. Adding value and increasing production efficiency through creation of "cotton clusters". The GoU has now established 16 clusters "cotton clusters" (on around 200,000ha, 12% of the total cotton area) led by private textile companies which will enter in direct contractual arrangements with cotton producers and ginneries. They will be free to organize input supply (with a 60%-advance payment to farmers) and cotton ginning on their own, and negotiate cotton price above the state-procurement price. The objective is to cover 700,000 hectares (around 65 percent of the total cotton area) which constitutes a promising step to move away from state-interventions and start liberalizing the cotton sector through market- and private-sector driven production and marketing arrangements. Economies of scale achieved through cluster model could also contribute to acceleration of mechanization, in line with GoU's commitment to achieve 70% of cotton harvested with machines by 2020.

4. Policy dialogue on Agricultural Sector reforms has to be based on research evidence and results of pilot initiatives. WB is collaborating with research organizations on a number of policy briefs and applied pilots, including development of a policy brief on cotton sector reforms and land policy, assessment of mechanization, land use flexibility pilots. For example, assessment of mechanization of the project areas of South Karakalpakstan Water Resource Management Improvement Project, underlined that top-down approach to mechanization is not effective, and mechanization needs to be prioritized for remote areas. WB is also exploring collaboration with clusters in the project areas to organize labor rights and working conditions trainings for the farmers, jointly with the ILO. Through Fergana Valley Irrigation Phase 2 project, land use flexibility pilots would also be supported. Pilots to support women cooperatives in rural areas are also being developed.

5. Highest level political commitment to eradication of child and forced labor in all sector. The President of Uzbekistan, Shavkat Mirziyoyev, in his speech at the General Assembly of the United Nations in September 2017. This was followed by creation of new Senate Committee on Labor Rights Guarantees for parliamentary and public control and prevention of labor rights'

violations by state authorities, institutions and individuals in October 2017. Public debate about the extent of labor mobilization of local authorities for streetscape improvements/maintenance and other works became more open. On May 10th, 2018 it culminated in a Cabinet of Ministers Decree on “*About additional measures to eradicate forced labor in the Republic of Uzbekistan*”, outlining concrete measures to eradicate and prevent forced labor in all sectors and take strict disciplinary measures to management of organizations that directly or indirectly mobilize workers of educational, healthcare and other sectors and students to forced labor.

6. Increased transparency and dialogue, encompassing all groups of civil society, including critical voices. Despite significant policy level developments, local observers and international CSOs, such as German Uzbek Forum and Human Rights Watch (HRW), continue to raise concerns about remaining practices and cases of forced mobilization at local level. The Government is becoming increasingly opened to acknowledging critical voices. HRW representatives are visiting Tashkent since September 2017, and in May 2018, a large delegation of Cotton Campaign representatives was hosted in Uzbekistan. Working dialogue was established between the authorities and local independent human rights monitors, who are expected to take part as monitors during 2018 harvest. The usage rate of the feedback mechanisms of the Federation of Trade Unions and the Ministry of Employment and Labor Relations has picked up in 2018, but further measures are needed to increase public trust.

7. The ILO continues to play a crucial role in monitoring and leading capacity building efforts on improving labor rights. Third Party Monitoring by the ILO in 2017²¹ confirmed that there was no systematic use of child labor in the cotton harvest in Uzbekistan and significant measures to end forced labor were put in place. At the same time, the report emphasizes the education and health sector workers are still at risk of being called to pick cotton. Continued efforts are required to fully eradicate forced labor and maintain the progress achieved on child labor; and to this end the ILO is implementing a comprehensive programme of capability building and awareness raising activities across the country. In addition, a study on labor rights and working conditions in horticulture and livestock sectors, with focus on WB-financed project beneficiaries, is currently underway.

²¹ http://www.ilo.org/ippec/Informationresources/WCMS_543130/lang--en/index.htm