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

Appraisal Stage | Date Prepared/Updated: 13-Apr-2019 | Report No: PIDISDSA25325

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Uzbekistan	P168180	Institutional Capacity Building Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	11-Mar-2019	23-May-2019	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Uzbekistan	Ministry of Finance	

Proposed Development Objective(s)

The Project Development Objective is to strengthen public financial management and enable the market operation of the corporate sector.

Components

Improving Public Financial Management
Improving Conditions for Market-Oriented Operations of the Corporate Sector
Improving Support Mechanisms for Reforms
Project Management

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	33.00
Total Financing	33.00
of which IBRD/IDA	33.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	33.00

IDA Credit	33.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

1. Uzbekistan is at a critical juncture of its economic transformation to a market economy, needing to urgently tackle a legacy of stark structural imbalances, while sustaining its macroeconomic stability. Real GDP growth in 2018 is estimated to be 5.1%, down marginally from 5.3% in 2017 and 6.2% in 2016, and significantly lower than the average of over 8% for the previous decade, reflecting the growing strains of macroeconomic imbalances and a history of official policies that constrained private sector dynamism.[1] The recent slowdown could be attributed to lower world commodity prices, negatively affecting Uzbekistan's exports, unfavorable weather for agriculture, and energy and water shortages. Slower than expected investment inflows and adjustment costs linked to the ongoing reforms may have also contributed to the moderation in growth. The national poverty rate fell only slightly between 2016 and 2017 from 12.5% to 12.4%, and Uzbekistan remains among the poorest countries in ECA, with GDP per capita of US$1,534[2] in 2017. Public investment increased sharply in 2017 and 2018, by 35% and 25% respectively, following a large injection of directed lending to state-owned enterprises (SOEs).

2. Public-sector performance, as a key player for economic transformation, suffers from lack of transparency, weak accountability, inadequate control mechanisms of corruption and insufficient skills of public officials. Perceptions of public sector corruption are high, with the country scoring 22 (up from 17 in 2012) out of 100 (very clean) and ranking 158 out of 180 (most corrupt) in the 2018 Corruption Perception Index issued by Transparency International.

3. After independence in 1991, Uzbekistan remained a closed and centrally-planned economy with very low private sector participation. For 25 years, the efforts of the government were to develop an import-substitution growth model, based on heavy state dominance in key sectors of the economy, such as energy, mining, agriculture (cotton, wheat), industry (chemical, automotive, pharmaceutical) and services. Estimates vary, but as of late 2016 the state contributed more than 50-60% of GDP, and the domestic private sector is very weak and largely informal. At the same time, the country's export

[1] World Bank. Report No. 126078 – UZ. Performance Learning Review of the Country Partnership Framework (FY19-21). May 29, 2018.
[2] World Bank National Accounts Data (current US$).

competitiveness had been in decline for a decade. New measures were needed to put growth on a new path and radically shift the economic model from an isolationist, import-substitution one to a more open, export-driven one.[3]

4. In late 2016, under the leadership of newly-elected President Shavkat Mirziyoyev, the Government of Uzbekistan (GOU) embarked on an ambitious economic modernization program to reinvigorate growth for the benefit of all Uzbek citizens. The Government issued its 2017–2021 National Development Strategy on February 7, 2017 (Presidential Decree No. 4947), which reflects a clear intention to build a private-sector-led market economy. It is a market-oriented reform program with five priority policy areas: enhance state and public institutions, secure the rule of law and reform the judicial system, promote economic development, foster social development and ensure personal and public security.

5. More recently, the government adopted an ambitious Reform Roadmap through a presidential decree and has established a new high-level Economic Council to advise the President and the Cabinet on the design and sequence of reforms. A new dedicated government agency tasked with reform of State Owned Enterprises (SOE) – the Agency for State Asset Management - was established on January 15, 2019. In parallel, there is a clear demand from the President to reform the governance and public-sector performance. The Ministry of Finance is revising the public financial management (PFM) strategy, which is based on the recent PEFA assessment (planned to be disseminated in March 2019). There is now strong commitment to reform the PFM system with emphasis on improved accountability, transparency, and performance.

6. To date, the GOU has made notable progress towards social and economic transformation: it has enacted the long-awaited Law on Public Procurement, which is based on international best practices, and the Law on Anti-Corruption. It has started reducing large economic distortions and avenues for corruption and the state's large presence in the economy. It has liberalized some prices and opened the economy to greater foreign and domestic private sector participation. While initial steps in all these areas have been taken, the government intends to undertake deeper institutional reforms through enhancing the capacity of all ministries and agencies involved in the transformation of the economy.

7. Thus far, the GOU has enjoyed widespread support from citizens, but expectations are high and demographic pressures present a major job creation challenge (with the rapid rise of working age population from 14 million in 2000 to 20 million at present) and a risk of radicalization. The President and Cabinet have begun an open dialog with citizens via online platforms and meetings in all regions of the country. Job creation is of the highest importance to improve citizens' living standards and ensure sustained support for the government's reform plan.

B. Sectoral and Institutional Context

8. Despite taking effective action and embarking on reforms, Uzbekistan's weak public institutions are not conducive to improve public financial management and facilitate market-oriented operations. Public sector laws, regulations, institutions, approaches and business processes need to be enhanced for

[3] World Bank Group Country Private Sector Diagnostic: Creating Markets in Uzbekistan: from Stabilization to Competitiveness. January 2019.

ongoing market reforms to have the desired impact and for public service quality to be improved.

9. The Government of Uzbekistan is fully cognizant that its current institutions and their operating frameworks lack the capacity to support a well-functioning public sector and an effective market economy. Uzbek public sector institutions do not operate following international good practices. Those include the areas of program/performance budgeting, public investment management, financial reporting, internal control, internal and external audit. Nearly half of the country's economic activity is carried out by SOEs that have long been benefactors of preferential treatment over private firms (e.g., monopoly operating rights; preferential access to capital and basic infrastructure; tax and customs duties exemptions or preferences; low input prices for electricity, gas, water; direct and indirect subsidies).

10. The Government has initiated reforms to address these multiple challenges and has requested World Bank support to continue to do so.

11. **Public Financial Management (PFM).** The Government has committed to enhance the public financial management system and take steps to improve the transparency, accountability, and overall performance of the public sector. In 2017, the law on anti-corruption was enacted and it included the establishment of a Republican Inter-Agency Anti-Corruption Commission (RIAC), under the President, with the Prosecutor's Office serving as the Secretariat of the Commission. In December 2017, Presidential Decree No. 3437 "On the introduction of a new procedure for the formation and financing of state development programs of the Republic of Uzbekistan" was issued, with the aim to improve public investment management (PIM).

12. The government has drafted a law on internal audit in the public sector, and it is in the early phase of designing and implementing an internal audit function within the government. In April 2018, the new Law on Public Procurement was adopted. A strategy to reform the public financial management system is expected to be adopted following the PEFA assessment which was completed in February 2019 to radically revise the system of public finances and increase the effectiveness of budget funds use, by introducing internationally recognized methods of budget planning, modern information and communication technologies and involving citizens in the management of public finances"[4].

13. **The Project will support GOU in advancing PFM reforms specifically in the areas of budget planning and execution (internal controls, treasury systems), public investment management and internal and external audit.** All of these will be supported under component 1 of the project.

14. **State-Owned Enterprise (SOE) Reform, including the creation of the Agency for State Asset Management, as the main agency responsible for implementation of SOE reforms and support for the PPP Agency and the development of PPPs.** Since 2017, the Government has taken steps to review the financial standing of the largest 25 SOEs, having completed detailed financial analysis of seven of these. In January 2019 the Government abolished the State Committee for Assistance to Privatized Enterprises and Development of Competition and created three new agencies with clear mandates. These include the Agency for State Asset Management (ASAM, created January 14, 2019 by Presidential Decree No. 5630), which reports to the Prime Minister and the President of the country.

[4] Government of Uzbekistan: Concept Note on the Improvement of the Public Finances of the Republic of Uzbekistan, publicly disclosed for consultation on the Government website in May 2018.

15. **ASAM's mandate is to implement reforms in the SOE sector.** More specifically, the agency is responsible for: (i) performing shareholder functions of the State in monitoring performance and exercise ownership rights with respect to SOEs, and (ii) reviewing and executing any divestiture of ownership in SOEs. Individual roadmaps to improve corporate governance and the operational performance of the largest systemically important SOEs have been rolled out by NAPM and the Foreign Investment Attraction Agency under the Ministry of Investment and Foreign Trade (FIAA - former State Investment Committee). Previously, in May 2018, a presidential decree was adopted to initiate the "Program of transformation of state enterprises and other entities with majority state ownership" to be implemented in 2018-2020. In September 2018, the government announced plans to start preparing for privatization 74 SOEs, including banks and other financial institutions. The list contained four of the largest SOEs, including their subsidiaries, in key sectors of the economy. Those tentative early steps are now complemented by the creation of ASAM, which has been tasked with leading the overall SOE reform process.

16. **The Project will support GOU in building proper infrastructure for effective management and oversight of SOEs, developing a pipeline of PPPs, including revisions to the legislative frameworks, preparing privatization and PPP transactions through dedicated PPFs and building the capacity of ASAM and the PPP Agency.** All of these activities will be supported under component 2 of the project.

17. **Competition, capital markets and insurance regulation:** In January 2019, in addition to ASAM, the Government created two new agencies as successors to GKK: the State Anti-Monopoly Committee in charge of implementing competition and consumer protection policy, and a Capital Markets Development Agency, responsible for regulating the securities market and working with other stakeholders in developing a National Financial Structure Strategy.[5] The Insurance Regulation department in MOF is also being tasked with preparing a roadmap for the sector and amending key laws, such as the Law on Insurance.

18. **The project will support the Anti-Monopoly Committee, the Capital Market Development Agency and the Insurance Regulation department in drafting new laws and regulations and training their staff.** These activities will be under component 3 of the project.

19. **Creation of an Economic Council will support reforms in several economic and social areas, including on Public Financial Management and State-Owned Enterprises.** The President through Decree No. 5614 of January 8, 2019 established an Economic Council that will have overall responsibility for advising on, and monitoring the implementation of, the 2019-2021 Reform Roadmap[6]. The Council is chaired by the Prime Minister and comprises key ministers and senior Presidential advisers responsible for reform design and implementation. A Secretariat has also been established at the Ministry of Finance under the management of the First Deputy Minister of Finance.

20. **The Council is expected to fill a critical institutional gap in Uzbekistan's reform transition** – the need for reforms to be well-coordinated and based on robust advice and evidence. The process of reform

[5] The World Bank has been asked to assist the CBU, Ministry of Finance, Capital Markets Development Agency and other stakeholders in the elaboration of the Financial Sector Structure Strategy. This is being done with trust fund resources.
[6] The Reform Roadmap, adopted by GOU in January 2019 by Presidential Decree No. 5614, is a comprehensive policy document. It was elaborated with the active support of the World Bank Group. It covers short- and medium-term activities under five themes: Macroeconomic Stability, Transition to Competitive Markets, Social Protection and Public Services, Role of the State in a Strong Market Economy, and Environmental Sustainability.

has to date been a largely *ad-hoc* process, where senior officials and line agencies have focused on developing and implementing requirements in the February 2017 Presidential Decree setting out the 2017-2021 Reform Agenda. This approach has generated considerable success stories, such as the exchange rate, tax and administrative price control reforms. But it has also held back more complex reforms that require multi-agency coordination and more deliberate implementation strategies that cut across any single part of the government.

21. **The Council's Secretariat will draw heavily on local and foreign experts to prepare and peer-review work that is submitted for the Council's endorsement.** A well-experienced international adviser to the Council and Secretariat would help establish a program of work and serve as a liaison with the international advisory community. The Council is also expected to periodically invite experts on specific topics to join their monthly deliberations and annual conferences.

22. **The Project will support the Economic Council with the hire of high-level international and local experts and fund periodic conferences and other events.** These activities are under component 3 of the project.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective is to strengthen public financial management and enable the market operation of the corporate sector.

Key Results

Improved PFM

- Budgeting processes, public internal control and audit, and public sector accounting standards implement international good practices

Market Operation of the Corporate Sector

- Corporate governance of SOEs follows OECD Corporate Governance Standards and progress is made in privatizing SOEs and infrastructure PPP transactions

D. Project Description

23. The proposed project has three components and will primarily involve technical advisory services (i.e., hiring of consultants), funding of IT (hardware and software) and Management Information Systems (MIS), training and workshops and covering of operating costs. The proposed project will also have a fourth component for project management.

Component 1: Improving Public Financial Management (PFM) (US$10 million)

24. This component will support improvements in areas that are fundamental to a functional PFM system that promotes achievement of public policy objectives, improved performance, and institutionalized accountability. Those will complement the work done by the International Monetary Fund (IMF) in the area of development of fiscal rules and fiscal risk management, and Asian Development Bank (ADB) on Medium-term Expenditure Framework implementation. The activities will be sequenced and will start from diagnostics and respective interlinked reform strategy development, followed by implementation. All interlinked PFM elements will be designed so that those are piloted in a government entity. Component activities will include:

25. **Capacity building for budgeting and effective public investment (US$1.45million).** This sub-component aims to strengthen the institutions through better budgeting processes, effectively managing public investments, and improved capacity of government officials. The sub-component will support the government's PFM strategy as it is developed. It will take into consideration the complementary support activities of other development partners (e.g., the IMF, ADB, European Union). The sub-component will provide support to the development and implementation of capacity building programs: (a) to enhance fundamental budgeting capacity in central and line ministries with a special focus on the process of preparation, results, and accountability; and (b) to enhance PIM capacity of the MOF and line ministries for the development of sustainable investment projects, including pre-screening, economic analysis and selection of investment proposals with due consideration to climate change and disaster risks mitigation and adaptation; and (c) to enhance the ability of central and line ministries to identify, develop, analyze, present, execute and monitor investment(?) infrastructure projects.

26. With regards to the scrutiny of SOEs' investment programs, the sub-component would strengthen the capacity of the MOF to carry out financial analysis of SOEs' strategic development and capital investment plans, hereby ensuring that contingent liabilities and fiscal risks are managed appropriately.

27. **Treasury system improvement (US$2.02 million)**. This sub-component will support Treasury reform with a focus on four related elements: financial reporting reform, cash management reform, treasury operations, and supporting IT systems development. This sub-component targets to help the Treasury in (a) expanding its coverage by including into the system USD and other foreign currency accounts and transactions of all budget entities (i.e. other than UZS transactions and operations), (b) developing procedures and guidelines for conducting payments through Treasury Single Account, (c) improving the Treasury's cash management system, and (d) improving business processes and operations by introducing improved IT systems in Treasury). The sub-component will finance: assessing the current treasury system (including data management and information security); developing and piloting new module(s) in the treasury system; supporting effective public investment management (for monitoring investment intensive sectors, such as civil works and construction); and assessing existing PFM information systems and ICT environment, including users' current capacity for further development of the integrated financial management information system (IFMIS) concept and its implementation strategy.

28. **Public Sector Accounting (US$3.0 million).** This sub-component aims at improving institutionalized accountability by aligning the public-sector accounting practices of Uzbekistan towards international good practices and standards. This sub-component will provide support to: (a) the conduct of an assessment on the difference between the current national accounting standards and practices with International Public Sector Accounting Standards (IPSAS), including the development of a comprehensive public sector accounting reform roadmap linked to the integrated PFM reform strategy; (b) the development of comprehensive national public sector accounting standards (i.e., Uzbekistan Public Sector Accounting Standards, UZPSAS) and a unified chart of accounts, including the drafting of supporting law and regulations on the new public sector accounting and financial reporting, development and testing of procedures for financial statement consolidation, piloting the new accounting standards and framework through the application of an entity-level accounting software, capacity building, change management and awareness program on the new accounting standards and framework; and (c) establishment of a certification system on the new accounting standards.

29. The project activities in this area will provide several benefits. First, they will allow for a clear understanding of the prevailing local accounting principles and policies and, most importantly, local practices compared to IPSAS and international good practices. The Report on the Enhancement of Public Sector Financial Reporting (REPF) assessment will detail the accounting environment in the public sector. The roadmap for Public Sector Accounting (PSA) reforms will estimate the required resources and recommend sequencing, taking into account the required linkages and timing of other PFM reforms. Parallel capacity building measures will ensure that public sector accountants and other staff are able to implement the reforms. PSA reform awareness-raising activities will be conducted to reach the broader universe of stakeholders, given that the reforms are going to impact all public-sector organizations in the country. Moreover, the assessment of existing PFM systems and the ICT environment of Uzbekistan's public sector will inform the development of a conceptual framework for an Integrated Financial Management Information System (IFMIS), the implementation of which will be a critical next step toward ensuring reliable and efficient resource flows and transactions.

30. **Public Internal Control and Internal Audit (US$2.18 million).** This sub-component aims at improving institutionalized accountability by upgrading public internal control (PIC) and internal audit (IA) frameworks towards international standards and good practices. It will provide support to the development and implementation of: (a) a new PIC framework, following an assessment of the current PIC framework and including design and piloting within a sector (reflecting all PIC components from program budgeting to reporting and using the treasury system towards this end), and drafting of supporting legal and regulatory framework; and (b) a new public sector IA framework including the drafting of new legislation for public sector internal audit (IA), developing risk-based guidelines and manuals following international good practices (e.g., Public Expenditure Management Peer-Assisted Learning (PEMPAL) Community of Practice on Internal Audit) and standards (i.e., International Professional Practices Framework), developing and piloting an IA management software, designing and implementing learning and awareness programs (including change management) on the new IA framework, and developing a concept for a certification system on the new IA framework.

31. **Public Sector External Audit (US$1.35 million)**. This sub-component aims at improving institutional accountability by aligning external audit practices with international good practices and standards. This sub-component will provide support to the development and implementation of: (a) a risk-based approach to external audit, including adopting risk-based annual planning methodology, establishing audit methodologies in line with good practices and the International Standards of Supreme Audit Institutions (ISSAI) through the development of audit manuals (financial and compliance audit), designing quality assurance arrangements, automating audit management processes, establishing a technical library, and piloting of the new audit

methodology and software; (b) a capacity building program, for COA audit staff, including change management and training on recognized audit qualification credentials; and (c) other relevant and necessary complementary activities.

32. The project will provide support to the evolution of COA and contribute to ensuring that it adequately functions as the country's SAI. The COA is currently undergoing a major change to its mandate and structure. In 2017, the President of Uzbekistan issued a decree empowering the COA with new responsibilities related to the review and analysis of the public financial management (state budget formation, execution, etc.) and the economic performance, financial and compliance audits of state entities. COA will need expert support to adjust its methodologies and redesign its internal business processes to transform itself into an effective modern SAI.

Component 2: Improving the conditions for market-oriented operation of the corporate sector (US$16.0 million)

33. This component will support the restructuring and "rightsizing" of the SOE sector in Uzbekistan through: (a) improving the legislative framework for SOE strategic ownership and performance on an equal footing with private sector; (b) strengthening institutions in charge of SOE governance and oversight and developing the tools for such oversight; (c) developing an inter-operable IT system for managing SOE data in the ASAM; (d) preparing PPP and privatization transactions through dedicated project preparation facilities; (e) capacity building and training for ASAM; and (f) technical assistance on communications and employee outreach. This component will complement the policy framework as outlined in the Uzbekistan Reforms for a Sustainable Transformation Toward a Market Economy DPO. Component activities will include:

34. **Improving the legal and regulatory framework for SOE strategic ownership and performance on an equal footing with private sector (US$2 million).** This sub-component will fund the development of a coherent and well-articulated SOE ownership policy and restructuring strategy, including strategic SOE mapping, to be based on ASAM's ongoing inventory and categorization of all SOEs in Uzbekistan. This work will lay the foundation for "rightsizing" the SOE sector and bringing in much needed private capital, setting the strategic assessment of the state's role in the economy and as an owner of SOEs. Both the SOE ownership policy and SOE mapping will require the Government's approval via regulation or decree.

Specifically, this sub-component will provide technical assistance to:

a. **Develop a coherent and well-articulated SOE ownership policy and restructuring strategy.** The SOE ownership policy should specify the state's objectives as an owner for the overall state-owned sector, as well as for specific SOEs. The policy should also clarify: (i) the respective roles of the state, the board of directors, and management; (ii) autonomy in SOEs operations, where the Government is removed from operational decision-making; (iii) fiduciary duty of boards and management to act in the best interest of an SOE; (iv) provide guidance to boards in cases where an SOE's commercial and non-commercial objectives are in conflict; (v) restructuring options and approaches as well as the assessment and selection of the companies that will become restructuring candidates; and (vi) gradual implementation of the restructuring strategy through piloting in a few companies.

b. **Conduct a comprehensive review and update of the legal and regulatory framework for SOE governance.** The SOE ownership policy and mapping should be accompanied by a comprehensive review and updating of the legal and regulatory framework for SOE governance. The main legislation will be analyzed aiming to bring SOEs under company law, subject SOEs to the same requirements as private entities, updating corporate governance, accounting and audit legislation, and applying other laws and regulations to SOEs to create a level-playing field.

Moreover, a clearly defined legal and regulatory framework for SOE ownership will establish key expectations to all stakeholders, including shareholders, boards, management, and the public. This will help improve SOE governance and performance, strengthen the state's ownership function and improve the efficiency of resource allocation. The process requires a comprehensive approach and can bring significant gains in increasing the efficiency of SOEs, while optimizing the use of public resources. The laws that would require updating and redrafting are: (i) Civil Code, (ii) Corporate Insolvency Law, (iii) Law on Joint Stock Companies and Protection of Shareholders' Rights; (iv) Law on Limited Liability Companies; (v) Corporate Governance Code; and (vi) Accounting and Audit legislation. ASAM management has indicated the need for significant amendments needed in the Civil Code, company law and the potentially the Labor Code.

35. **Strengthening institutions and developing tools for improved SOE oversight and governance (US$1.5 million).** This sub-component will support the first phase of the government's actions and gradual transition to better performance by SOEs. This work will build the foundation for enhancing corporate governance infrastructure for SOEs and improve SOEs' financial accountability, performance monitoring and management. In particular, this sub-component will support implementation of SOE governance through capacity building in ASAM, developing and implementing an SOE performance monitoring system and building an IT platform for aggregation and publication of large SOEs' financial statements.

36. **ASAM will need to put SOEs on a financial sustainability path, thereby improving their profits and contribution to the economy.** This sub-component will include support to: (i) building the staff capacity of ASAM, the Ministry of Finance, the Foreign Investment Attraction Agency under the Ministry of Investment and Foreign Trade, and other government agencies in charge of performing SOE ownership and oversight functions; (ii) developing and implementing an SOE performance monitoring system in ASAM; (iii) setting the policies and procedures on SOEs data collection and processing; (iv) supporting the gradual transition of the largest SOEs to International Financial Reporting Standards (IFRS) and International Standards of Audit (ISA) to increase the reliability and quality of financial information of SOEs; (v) developing and implementing guidelines for SOEs' financial performance evaluation (based on IFRS); and (vi) developing and implementing an IT platform for aggregation and timely publication of large SOEs' (i.e., top 30) financial statements.

37. **Development of a system database for ASAM (US$1.0 million).** The activities will include technical support to ASAM in assessing the IT requirements for a new information system that collects and manages data collected from SOEs, and procurement of such IT solution. The solution should be a user-friendly and interactive system, which would allow for collecting and maintaining detailed information for each company (e.g., taxation, employment, financial analysis, and dynamic data).

38. **Two Project Preparation Facilities (PPFs) for GOU institutional capacity upgrading to bring strategic investments (divestments, PPPs) to the market (US$10.0 million).** There will be one PPF for divestments and one PPF for PPPs. This sub-component will finance TA support (through needed studies and advisories) the restructuring and transition of select SOEs to privatization (the "divestments") and the development of public-private partnerships; the PPFs will also complement the policy dialogue between the WBG and the Government. Under this subcomponent, two separate PPFs will be established – one to support the Agency for State Asset Management and the second for the benefit of the PPP Agency under the Ministry of Finance, each capitalized with US$5 million. These TA funds will be used to finance the preparation of privatization transactions and the preparation of PPP transactions for the market, respectively.

39. **The PPF funds will help coordinate and finance activities required to ensure that investment projects**

(divestments and PPPs) are well-structured, commercially viable, and packaged in line with global best practices; deliver value for money to the GOU and are fiscally prudent; and are executed in line with relevant GOU policies and procedures – complementing available donor support. The PPFs are being established to ensure that any privatization or PPP that comes to the market for private sector investment in Uzbekistan is properly prepared by the government through studies and advisory TA. Eligible PPF activities would support all stages of the transaction lifecycle, where there are identifiable outstanding public-sector capacity needs.

40. **The PPFs will cover several sectors and be set up as revolving facilities, i.e., to the extent possible, successful bidders of privatizations and PPPs will repay the cost of the PPF studies or advisories.** As successful bidders recapitalize the PPFs, it is expected that the PPFs will use much more than the US$5 million initially capitalized under each facility at the beginning of the project. In terms of sectors, the PPFs are expected to prepare divestments and PPPs in numerous sectors, including for example agribusiness, energy, information and communications technology, logistics, transportation (airports, toll roads etc.), social sectors (health, education), tourism, and water and sanitation. To ensure the proper use and accounting of the two PPFs, the Government will keep separate accounts for each PPF, one account for the PPP PPF and a second account for the ASAM PPF.

41. **Capacity building for all relevant government agencies involved in SOE corporate governance reform, privatization and PPPs (US$1.0 million).** A large share of the capacity building and training will be integrated into the implementation of activities under this component. However, there will be specific technical assistance (seminars, workshops, consultations, study tours, etc.) provided for the capacity building of the implementing agencies, including the enhancement of individual skills of staff. The required knowledge covers the skills to select the external consultants, legal and industry experts in a transparent manner, to help them in communications with the companies and to be able to control and comment on the proposals received. GOU staff working on privatizations and PPPs will need to work closely with financial, technical and legal advisers hired with project funds. Government officials will also need to be trained in several areas, including the development of project concepts, information memoranda, how investors are identified, data rooms, bidding documents, evaluations, financial instruments, contract monitoring, etc. For PPPs, several early training areas will be prioritized, such as fiscal risk impact, value for money, risk identification and mitigation, project preparation, and the treatment of unsolicited proposals.

42. **Technical Assistance on communications and employee outreach (US$0.5 million):** The TA will assist ASAM and other relevant Uzbek authorities develop a communications strategy in support of the SOE reform agenda. This task will entail the development of an overarching communications strategy around the transformation towards an economy led by the private sector and the role of the State in providing sound regulations, as well as an engagement template for managers and employees of the various SOEs slated for privatization. The TA will also include a substantial capacity building element to ensure that ASAM can continue implementing various communications and employee outreach activities in the future.

Component 3: Improving Support Mechanisms for Reforms (US$5.0 million)

43. This component will provide support to the newly established Economic Council, key regulatory agencies and other public sector agencies that are expected to be identified as critical for implementing market reforms during project implementation. Component activities will include:

44. **Technical assistance to the Economic Council (US$1.0 million).** The TA will support the Economic Council

implement the Reform Roadmap 2019-2021 launched on November 29, 2018 with a view to foster private-led economic growth. The Council is expected to draw heavily on local and foreign experts to prepare and peer-review work that is submitted for the Council's endorsement. The costs of this advisory work – consultant honorariums, fees, and travel costs – are expected to be supported through this proposed operation. The proposed operation is also likely to cover some costs involved with the ongoing operations of the Secretariat – such as the recruitment of local experts and costs associated with logistics of organizing Council meetings and periodic conferences.

45. **Technical Assistance to Regulatory Agencies and Other Public Sector Agencies (US$4.0 million).** This sub-component would include capacity building and TA support to the insurance market regulator for the amount of US$1.0 million. The support would include TA for the Department of Insurance Supervision under MOF through: 1) a diagnostic of the insurance market and 2) a roadmap for reform of the insurance market and for enhancing its supervisory capacity. The sub-component will also finance consultancy services to amend the Law on Insurance, Law on Insurance Intermediaries and other sector legislation, and bring them in line with international best practice.

46. **Technical Assistance to Regulatory Agencies and other public sector agencies performing economic regulatory functions as the Recipient may propose and the Association may agree.** This sub-component will involve financing of activities that would contribute to the achievement of the PDO but have not yet been identified. For example, the newly established regulatory agencies, such as the Anti-Monopoly Committee and the Agency for Capital Market Development, have expressed interest in receiving TA under the project. If this is deemed additional and contributing to the PDO, the project could fund potential activities for these agencies as well. The objective of this sub-component is to respond to emerging institution building needs and changing priorities of the government. The selection process and criteria for activities to be funded under this sub-component are discussed in Annex 1 and will be provided in the Project Operational Manual (POM).

Component 4: Project management (US$2 million, including unallocated of US$0.5 million)

47. **Project management (US$1.5 million).** This sub-component will provide support to the overall implementation arrangements for the project. This will involve financing activities of the project implementation unit (PIU) in the Ministry of Finance, including coordination, follow-up, and reporting (budget and task contracts and completion), project management and fiduciary training, travel, relevant operating costs and personnel, such as the PIU Director, fiduciary staff, component technical leads and coordinators, thematic specialists, administrative staff and other staff deemed necessary for the efficient and effective operations of the PIU.

E. Implementation

Institutional and Implementation Arrangements

1. **Several agencies will be involved in the ICBP.** To ensure effective collaboration across all agencies, a Project Implementation Advisory Board (PIAB) will be established to monitor progress and facilitate the resolution of inter-institutional implementation challenges. The overall implementing agency for the project is the Ministry of Finance. Component 1 is also expected to be led and coordinated by the Ministry of Finance. Component 2 will be led and coordinated by ASAM. Component 3 will be led and coordinated by the Ministry of Finance. Under each component, sub-components will have beneficiary agencies (that maybe the same or different from the component leads) who will be in-charge of their respective activities/sub-components.

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

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

G. Environmental and Social Safeguards Specialists on the Team

Kristine Schwebach, Social Specialist
Javaid Afzal, Environmental Specialist
Odil Akbarov, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

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

Indigenous Peoples OP/BP 4.10	No
Involuntary Resettlement OP/BP 4.12	No
Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
Project will primarily involve technical advisory, purchase of IT systems (software and hardware), training and workshops. Project location is primarily Tashkent, the capital city. The project activities are not expected to trigger safeguard policies. Accordingly, no safeguard related studies are planned to be prepared. The project has SOE reform component that will include TA for legal and regulatory reform, a facility for preparing pre-feasibility and feasibility studies for PPPs, and a facility for preparing privatization transactions of SOEs. While the project will not finance privatizations per se, the Government reforms in this area will potentially lead toward some privatizations and PPP, which may trigger some worker redundancies and layoffs. In order to mitigate potential negative social effects, the team will coordinate with the World Bank's Social Protection Project to jointly design mitigation measures, include risk assessment in the project, and consider the important lessons from past transition experiences.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Not applicable.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Not applicable.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Not applicable.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Not applicable.

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

CONTACT POINT

World Bank

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APPROVAL

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