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INTERNATIONAL DEVELOPMENT ASSOCIATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR THE

REPUBLIC OF UZBEKISTAN

FOR THE PERIOD FY12-FY15

November 1, 2011

**Central Asia Country Management Unit
Europe and Central Asia Region**

**International Finance Corporation
Europe and Central Asia Region**

Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENTS

Currency Unit = Uzbekistan Soum
US\$1 = 1,758 Soum
(October 17, 2011)

GOVERNMENT FISCAL YEAR

(January 1 to December 31)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IsDB	Islamic Development Bank
APL	Adaptable Program Loan	ISN	Interim Strategy Note
CAHMP	Central Asia Hydrometeorology Modernization Project	JICA	Japanese International Cooperation Agency
CAREC	Central Asia Regional Economic Cooperation	NGOs	Non-governmental Organizations
CAS	Country Assistance Strategy	MDGs	Millennium Development Goals
CAEWDP	Central Asia Energy and Water Development Program	MFN	Most Favored Nation
CBU	Central Bank of Uzbekistan	MFRIT	Ministry of Foreign Economic Relations, Investment and Trade
CEDAW	Convention on Elimination of All Forms of Discrimination against Women	MIGA	Multilateral Investment Guarantee Agency
CIFA	Country Integrated Fiduciary Assessment	MOE	Ministry of Economy
CIS	Commonwealth of Independent States	NQI	National Quality Infrastructure
COM	Cabinet of Ministers	ODA	Official Development Assistance
CPI	Consumer Price Index	PEFA	Public Expenditure & Financial Accountability
CPIA	Country Policy Institutional Assessment	PFI	Participating Financial Institutions
CPPR	Country Portfolio Performance Review	PFM	Public Finance Management
CPS	Country Partnership Strategy	PIU	Project Implementation Unit
ECA	Europe and Central Asia	PPP	Public-Private Partnerships
FDI	Foreign Direct Investment	PRSP	Poverty Reduction Strategy Paper
FRD	Fund for Reconstruction and Development	RESP II	Rural Enterprise Support Project
GAP	Gender Activities Master Plan	RRA	Rural Restructuring Agency
GDP	Gross Domestic Product	SDC	Swiss Agency for Development & Cooperation
GNI	Gross National Income	SDR	Special Drawing Right
GPOBA	Global Partnership on Output-Based Aid	SME	Small and Medium Enterprise
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Technical Cooperation)	SOEs	State-owned Enterprises
HDI	Human Development Index	SSC	State Statistics Committee
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
ICT	Information and Communications Technology	UN	United Nations
IDA	International Development Association	UNDP	United Nations Development Program
IDF	Institutional Development Fund	UNECE	United Nations Economic Commission for Europe
IFAS	International Fund for Saving Aral Sea	UNFPA	United Nations Population Fund
IFC	International Finance Corporation	UNICEF	United Nations Children's Fund
IFIs	International Financial Institutions	UNODC	United Nations Office on Drugs and Crime
IFS	International Finance Statistics	USAID	United States Agency for International Development
IMF	International Monetary Fund	WBG	World Bank Group
		WDR	World Development Report
		WHO	World Health Organization
		WIS	Welfare Improvement Strategy
		WUA	Water Users' Association

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UZBEKISTAN: COUNTRY PARTNERSHIP STRATEGY, FY12-15

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EXECUTIVE SUMMARY

i. **Recent Economic Developments.** Uzbekistan has enjoyed robust gross domestic product (GDP) growth since the mid-2000s—averaging 8 percent annually according to official data—due mainly to three factors: *first*, favorable terms of trade, in particular the continued high world market prices of the country’s key export commodities—copper, gold, natural gas and, since 2010, cotton; *second*, the government’s macro-economic management, including its end-2008 stimulus; and *third*, limited exposure to international financial markets, which shielded it from contagion effects.

ii. **Economic Prospects.** Overall growth is projected to continue around 7-8 percent annually during 2011-14, supported by net exports and a large capital investment program. World prices for Uzbekistan’s principal exports are currently projected to remain favorable at least through the first half of the FY12-15 Country Partnership Strategy (CPS) period. The impact of recent increases in global food and energy prices is expected to be limited because of Uzbekistan’s policy of self-sufficiency in both food grains and energy. Given the authorities’ plans to finance up to two-thirds of their investment program from external sources, including loans, external debt is expected to increase gradually.

iii. **Development Challenges and Opportunities.** The authorities’ vision is for Uzbekistan to become an industrialized, high middle-income country by mid-century. Critical elements for such a transformation include: (a) increasing the economy’s efficiency and competitiveness and reducing its dependency on a few commodity exports; (b) strengthening the financial sector to support private entrepreneurial activity; (c) diversifying production towards higher value-added activities where comparative advantage can be demonstrated; (d) creating jobs for the rapidly growing population of young educated people; and (e) improving governance, including access to information on government policies and their outcomes.

iv. **Government Priorities and Medium-Term Strategy.** The authorities’ approach toward achieving these goals is to continue the gradual transition to a more market-oriented economy, to ensure equitable distribution of growth between regions, and to maintain infrastructure and social services. Their medium-term growth and development strategy is reflected in a five-year Industrial Modernization and Infrastructure Development Program (2011-15) and in recently issued presidential decrees. These documents embody four cross-cutting development policy goals and priorities:

- to increase the efficiency of infrastructure, especially of energy, transport, and irrigation;
- to enhance the competitiveness of specific industries, such as agro-processing, petrochemicals, and textiles;
- to diversify the economy and thereby reduce its reliance on commodity exports; and
- to improve access to and the quality and outcomes of education, health and other social services.

v. **Bank Group Strategy.** The strategy’s principal goal is to support implementation of these four development policy objectives and priorities. It will continue with the two-track approach employed under the previous Country Assistance Strategy (CAS)—namely full or limited engagement, depending on the extent of agreement with the authorities on the direction of reforms in the policy areas or sectors concerned. In practice, this means that CPS support for increasing the efficiency of infrastructure and for human development and social inclusion—where government and Bank Group views broadly converge—will broaden and deepen the operational involvement and

related policy dialogue already in place from the previous CAS. Conversely, support for the government's industrial competitiveness and economic diversification agenda, where government and Bank Group perspectives differ, will be limited initially to analytical and advisory services. Overall, the CPS's framework and the program outlined below reflect the reform priorities that emerged from last year's dialogue with the authorities on the outcome of the 2009 country performance institutional assessment (CPIA). They are also broadly aligned with the Europe and Central Asia (ECA) region's three strategic pillars of competitiveness, inclusion, and climate change.

vi. **Bank Group Program.** The provisional lending program comprises fifteen operations over the four years FY12-15, of which eleven will support reforms and investments for achieving sustainable growth, including more efficient energy use and diversification of exports. The total financial envelope will be about \$1.3 billion, *i.e.* commitments averaging about \$325 million annually. Besides new lending, the existing portfolio of investment projects will support the infrastructure efficiency and social inclusion elements of the government's strategy. Proposed analytical and advisory services will cover all four elements of the government's growth and development strategy. In addition, the provisional list of analytical and advisory services includes a proposed joint strategy report "Uzbekistan Vision 2030". This would lay out roadmaps to facilitate implementation of the authorities' industrial development, competitiveness and diversification agenda.

vii. **International Finance Corporation (IFC) Program.** IFC will maintain its focus on private sector development through a combined investment and advisory approach. It will seek opportunities in the following priority areas: (a) direct investments in the real sectors, such as general manufacturing, services, and agribusiness; (b) strengthening access to finance for private sector through banks, especially by strengthening privately owned banks; and (c) encouraging private sector participation in infrastructure.

viii. **Risks.** While the country's economic, political *and* social environment is currently stable, CPS implementation could be affected by a combination of risk factors. Regionally, these include deteriorating security conditions due to the situation in Afghanistan, and increasing tensions between Uzbekistan and its neighbors over regional issues—especially the management and use of trans-boundary energy and water resources. Domestically, they include the economy's vulnerability to possible external shocks affecting commodity prices and the anticipated inflow of foreign direct investment (FDI) and external loans to finance the large public investment program. The three main risks to CPS implementation are: (a) the significant political commitment required to confront bottlenecks currently blocking the efficient functioning of the economy and private sector development; (b) the lack of reliable data and related effectiveness of Bank Group policy advice; and (c) implementation delays and the potential for mis-procurement as a result of the authorities' contract *expertise* and price verification process. The program includes measures designed to manage or mitigate these risks.

I. INTRODUCTION

1. **The FY12-15 Country Partnership Strategy (CPS) builds upon the experience of the previous Country Assistance Strategy (CAS), which ended on June 30, 2011.** The FY08-11 CAS, reflecting increased engagement following the FY06-07 Interim Strategy Note (ISN), adopted a two-track approach. This was defined as: full engagement, comprising both lending and analytical and advisory services in policy areas and sectors of common agreement on the path and pace of reform; and limited engagement, comprising only analytical and advisory services in areas where there was no, or incomplete consensus. It anticipated IDA15 financing in the range \$375-450 million for FY08-FY11, with non-lending activities focused on key sector and thematic areas proposed by the government. Eight operations totaling \$533 million were approved during the period, including a \$110 million IBRD loan for energy in FY11—the largest sector investment loan to Uzbekistan to date. While this outcome exceeded expectations in mid-2008, it remains modest both in absolute terms and relative to the size of Uzbekistan’s economy and population as well as the country’s regional role and importance.¹

2. **Continuing the two track approach, the CPS proposes a program linked to the efficiency, competitiveness, diversification, and social equity elements of the government’s medium-term growth and development strategy.** Thus, support for increasing the efficiency of infrastructure and for improving access to social services and its outcomes, where government and Bank Group views broadly converge, will combine new lending, within a \$1.3 billion IBRD/IDA envelope, with related analytical and advisory services, technical assistance, and implementation of 10 operations currently underway. Conversely, support for the government’s competitiveness and economic diversification agenda—where government and Bank Group perspectives differ—will be limited initially to policy dialogue and possibly technical assistance. IFC will maintain its focus on private sector development through a combined investment and advisory approach.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

3. **Uzbekistan is a lower middle-income, resource rich, doubly-landlocked country, strategically located in the heart of Central Asia.** Its population of about 28.2 million (mid-2010), about half of whom live in urban areas, accounts for about forty percent of Central Asia’s total. It is the world’s sixth largest cotton producer² and fourth largest raw cotton exporter³. Other important commodities include natural gas, gold, copper and uranium. As the only country bordering five other Central Asian states including Afghanistan, Uzbekistan’s economic and social development is important not only for its own young and rapidly growing population, but also for the management of the region’s energy, water, and trade as well as for its political stability and security.

¹ Uzbekistan did not fully utilize its IDA allocation in the past. Bank/IDA lending during the 14 years (FY94-07) preceding the previous CAS totaled \$654.1 million—an annual average of \$47 million or less than \$2 *per capita*—of which \$599.1 million was committed between FY94-03 and \$55 million between FY04-07.

² National Cotton Council of America – Rankings, 2010.

³ UN COMTRADE database.

A. Political and Regional Context

4. **Uzbekistan's government and public administration have undergone important reforms, especially since the mid-2000s, but continue to be highly centralized.** The influence and executive powers wielded by the Presidency and the Cabinet of Ministers (COM)—through numerous, sometimes internal, decrees and resolutions—are far reaching; and there appears little room for individual ministries or agencies to take even minor decisions or initiatives. Public accountability therefore remains weak and voice and participation in economic and social policy dialogue is limited.

5. **Governance and transparency remain major challenges.** The limited availability of key economic, financial, and social data, including consumer price indices (CPI), national accounts, and fiscal accounts⁴, significantly hampers the relevance, timeliness, and value of economic analysis and policy advice—both macro and sector-specific. It also undermines Uzbekistan's compliance with international standards and obligations and indirectly impedes FDI. The authorities recently indicated readiness to provide data for publication in the International Monetary Fund's (IMF's) International Finance Statistics (IFS) and undertook to improve national accounts statistics, but progress in implementing these commitments remains slow (*cf.* Box 1 in the next page).⁵ They have also improved public access to official information and data, including on-line through the State Statistics Committee's (SSC) website. Despite these advances, however, data availability remains selective.

6. **Internationally, Uzbekistan's relations with key bilateral development and trade partners—the European Union, Japan, Russia, the United States and, more recently, China—have continued to improve.** On the other hand, its interactions with Central Asian neighbors are **politically** concerns over the management of the region's shared energy and water resources—exemplified by Uzbekistan's opposition to the construction of two large hydropower projects in the Kyrgyz Republic and Tajikistan that could affect the flow of water it requires for irrigation. Given upstream and downstream countries' differing interests as far as energy and water are concerned, regional cooperation in these two crucial areas—beyond the minimal bureaucratic and technical coordination needed to ensure effective functioning of their integrated infrastructure—is likely to remain difficult in the near term.

B. Poverty Profile and Trends

7. **Poverty has declined in recent years, due to rapid economic growth, government investments, and increased remittances from abroad.** According to official data, poverty as measured by a national food-based norm of 2,100 kilo-calories per person per day declined from 27.5 percent of the population in 2001 to 19.5 percent in 2010. Rapid GDP growth, regular increases in public sector salaries, and increased remittances mainly from Russia (which peaked at an estimated 7 percent of GDP in 2008) were the main contributing factors. Although recent trends imply an accelerated decline in poverty since 2005, especially in rural areas, the elasticity of poverty reduction to GDP growth remains relatively low. Explanations include: the low productivity of agriculture which still employs one third of the population, but is subject to numerous implicit taxes; the high level of informality in the labor market; and the high and growing dependency within households

⁴ Uzbekistan provides CPI data, but not in accordance with the generally accepted methodology required under Article VIII, Section 5 of the IMF's Articles of Agreement.

⁵ An IMF-financed long-term resident statistical advisor is helping the authorities improve price and national accounts statistics.

(i.e. the small number of working adults relative to total household members) and regional divergences (i.e. richer regions growing faster).

Box 1: Data Availability and Transparency

The limited availability and poor quality of key economic, financial, and social data impedes a detailed, realistic assessment of the country's macroeconomic policies and structural reform performance. During the previous CAS, the authorities have made efforts to improve data quality and transparency and this Box summarizes progress achieved and challenges remaining in this important area.

The main effort to improve access to information on public policies has been through the introduction of government-run websites. A wide range of economic statistics is now available on-line on the State Statistics Committee's (SSC) website. However, these data are often not aligned with international data dissemination standards. Specifically, until 2010, economic data had not been reported to any of the internationally recognized databases. Tangible progress was made in 2010 when the government published Financial Soundness Indicators on the International Monetary Fund's (IMF) website.

The Bank and the IMF, together with other development partners, have launched a series of initiatives to assist the authorities in improving national statistics. Starting 2008, the IMF placed several long-term resident advisors in the SSC to provide technical assistance in improving the quality of balance of payments data, restructuring of the national accounts data collection system, revising the CPI methodology, and aligning the public financial reporting system with international standards. IMF technical assistance has also contributed to the improved quality of fiscal and monetary accounts and balance of payments. A financial statistics dataset is well advanced in terms of compliance with international standards and readiness for disclosure to the IMF. Reconciliation between fiscal and monetary data has been streamlined.

In addition, the UNICEF and the Bank Group have been providing assistance to improve sampling and data collection practices and data analysis methodologies of household surveys, in particular for the 2011 Multi Cluster Indicators Survey (MICS)—a large household-level survey covering 20,000 households. It aims to facilitate verification of poverty-related statistics.

In order to move public disclosure forward, the Bank Group engaged with the government on data transparency issues under the broader CPIA policy dialogue, linking data transparency with improvement in the overall governance environment. Partly as a result of these efforts, and those of the IMF an April 4, 2011 COM Resolution (# 2629) authorized initiation of preparatory work to publish economic data in the IMF's databases. **Subject to the IMF's own procedures and timetables.** The first publication is expected by early-2012. Nevertheless, actual progress towards improved data transparency remains slow.

8. **In 2010, Uzbekistan ranked 102 out of 169 countries on the UNDP's Human Development Index (HDI).** Its score of 0.617 in the HDI's 'medium human development' group of 42 countries, is below the ECA region's average of 0.717, but has improved from 0.588 in 2005. Uzbekistan has reached its United Nations' Millennium Development Goal (MDG) for maternal mortality and is on track for child (under five) mortality and reversing the spread of tuberculosis. Its MDG target for improving the quality of primary and basic secondary education while maintaining universal access is expected to be met. Reversing and halting the spread of HIV/AIDS by 2015, however, is unlikely, and halving poverty—from 27.5 percent in 2001 to 14 percent in 2015—will require maintaining high growth rates. A 2011 government COM resolution "On additional measures for implementing the United Nations Millennium Development Goals in Uzbekistan" outlines tasks, measures, outcomes and responsible ministries for each MDG for the period 2011-15.

9. **Uzbekistan's national targets for gender equality and women's empowerment are on track.** It achieved gender equality in primary and general basic secondary and secondary vocational education in 2005 and is expected to improve gender balance in higher education by 2015. An

overview of opportunities and outcomes for women, using the upcoming 2012 World Development Report's (WDR) three-dimensional analytical framework, is summarized in Box 2 below.

Box 2: Gender in Uzbekistan

Endowments: Gender differences at the primary, secondary, and tertiary levels of the education system are small, but the educational attainment of employed women is on average higher than employed men. Access to prenatal and family planning services is high, with virtually all births attended by that of skilled health staff and 97 percent occurring in a health facility. According to official data, infant mortality is 11/100,000 births, but according to field surveys it may be three times higher. Importantly, there is no gender imbalance at birth. Contraceptive prevalence is about 65%. The total fertility rate has roughly halved since the early 1990s, from 4 to 2 live births per woman. Women's life expectancy exceeds that of men by 4 years.

Access to economic opportunities: According to official data, 95 percent of both men and women of working age were employed in 2010, although according to survey data female employment is only 50 percent. Women account for about 45 percent of the labor force and over 65 percent of health and education system employees. They are under-represented in agriculture, construction, industry, and services, and only 25% of female entrepreneurs received credit in 2007. There is also evidence that women are benefiting less than men from the restructuring of *shirkats* into private farms: in 2007, only 7.2 percent of private farmers were women, according to Women's Committee statistics.

Agency: Uzbekistan's Constitution and Family Code provide for equal rights and responsibilities for men and women. The State Committee for Women's Affairs—an officially registered non-governmental organization (NGO) comprising a nation-wide network of almost 80,000 primary organizations—coordinates and promotes women's activities. Its chairwoman is a Deputy Prime Minister. There is provision for mandatory nomination of female deputies for all administrative bodies at regional, district and township levels dealing with women's issues. As a result, nearly 400 women participate in decision-making at various levels of government, at the same time acting as head of the local branch of the State Committee for Women's Affairs. This structure extends down to the community level, where 10,000 women's adviser positions have been created. It was recently expanded to include full-time positions of Deputy Rectors in charge of women's issues at all higher education institutions.

In terms of the political process, women remain underrepresented and, to address this issue, political parties set a quota of 30% for female candidates in elections. As a result, the number of women deputies in the national bi-cameral legislature increased from 9 percent to 17 percent in 2005. The Speaker of the Legislative Chamber (lower house) and the Vice-President of the Senate (upper house) are both women. Uzbekistan ratified the Convention on Elimination of All Forms of Discrimination against Women (CEDAW) in 1996. More recently, the government has evidenced increasing commitment to efforts to combat human trafficking.

C. Recent Economic Developments

10. **Uzbekistan has enjoyed robust GDP growth since the mid-2000s—averaging 8 percent annually according to official data.** Its economy withstood the 2008-09 global financial crisis relatively well. Three factors explain these positive outcomes: *first*, favorable terms of trade, in particular continued high world market prices for the country's key commodities—copper, gold, natural gas and, since 2010 cotton; *second*, the government's macro-economic management, including its end-2008 stimulus equivalent to 4 percent of GDP, financed partly by the Fund for Reconstruction and Development (FRD)—a sovereign wealth fund established in 2006 to collect windfall gains from commodity-based revenues; and *third*, the country's limited exposure to world financial markets, which largely shielded it from contagion effects. Nevertheless, remittance inflows

fell by an estimated 30 percent in 2009, which most likely impacted the poorest, most vulnerable groups.

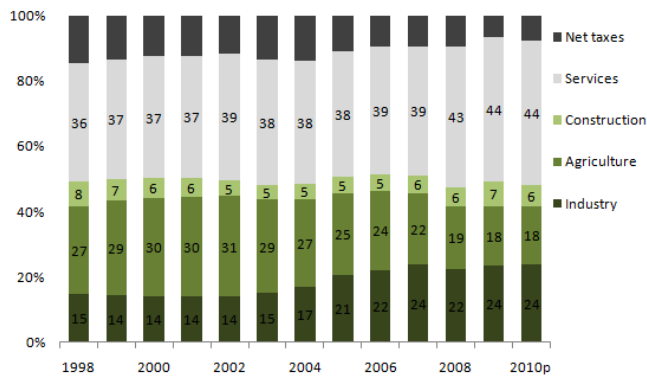
11. **The 2010 consolidated balance, including FRD resources totaling \$4.9 billion, posted a surplus equivalent to 2.2 percent of GDP.** This enabled the government to continue its interventionist economic policies, including support for import substitution and export promotion. Specific measures included budget subsidies, tax holidays, preferential access to credit and foreign exchange, as well as duty-free imports of capital goods for enterprises in government-determined priority industries. The authorities intend to maintain these policies over the medium term, including a fiscal stance aimed at accumulating considerable FRD resources (\$10 billion by 2014).

12. **Uzbekistan has enjoyed large current account surpluses since 2004, owing to continued high prices for its commodity exports, remittances, and the authorities' export promotion efforts.** These surpluses, together with foreign exchange restrictions and net savings as a result of the government's tight fiscal policy, enabled the central bank to accelerate the accumulation of reserves, which had increased to \$14.6 billion by 2010—equivalent to over 12.5 months of recorded imports, or 38 percent of GDP. Meanwhile, the authorities' zero net borrowing policy improved the country's debt indicators. External debt, 70 percent of which is public or publicly guaranteed, declined from 64 percent of GDP in 2001 to 15 percent of GDP in 2010, by which date the debt service to exports ratio had fallen to about 7 percent.

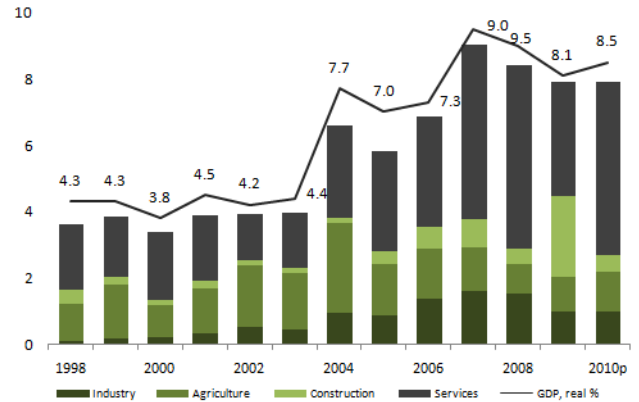
13. **The spread between the official and (curb) market exchange rates in Uzbekistan remains considerable and reflects foreign exchange restrictions and the availability of foreign exchange in the official foreign exchange market.** When export receipts declined in 2008, a spread between the official and curb market exchange rates re-emerged and averaged to 40 percent during 2009-11 (*cf.* Figure 1 below). As the external surplus (6.7 percent of GDP) and the level of international reserves (equivalent to 12.5 month of imports) are high, this spread does not jeopardize overall macroeconomic stability. However, the foreign exchange restrictions and surrender requirements impose an additional burden on private businesses that do not have preferential access to foreign exchange. This increases the cost of their imports and fuels imported inflation. The foreign exchange regime also inflicts an additional *de facto* tax on producers and exporters of cotton and wheat under the state order or procurement system because government purchases of cotton and wheat are valued at the official exchange rate.

Figure 1: Uzbekistan's economic performance, 1998-2010

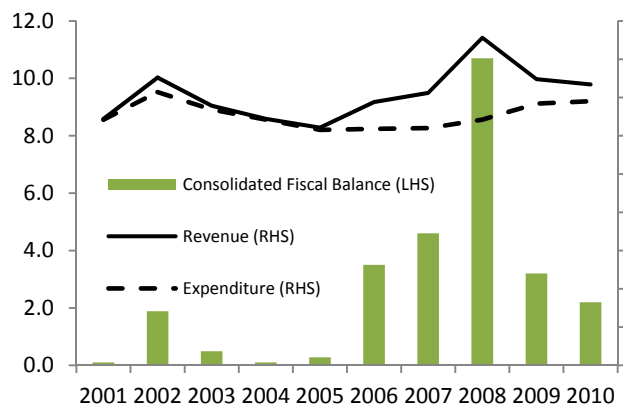
Sectoral composition of GDP, %



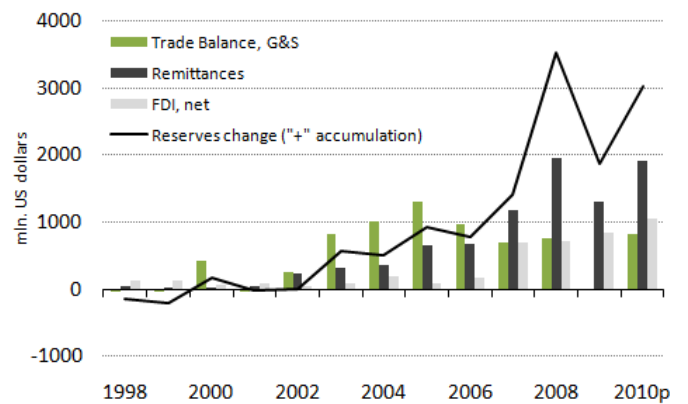
Sectoral contribution to GDP growth rates, %



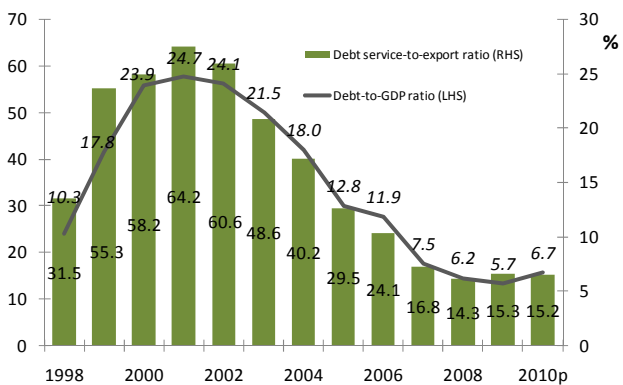
Budget performance, % of GDP



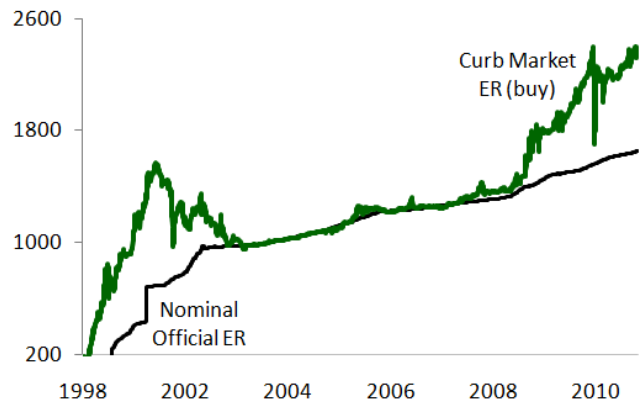
External inflows and changes in international reserves



Debt ratios, % of GDP



Exchange rate, soum/\$1 (daily 1998-2010)

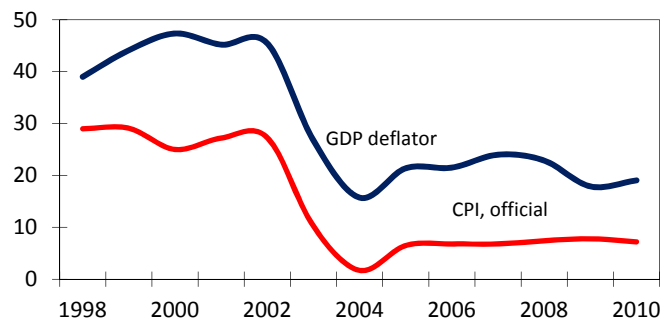


Source: World Bank staff calculations based on official statistics

14. **Although the reported inflation has shown a secular decline, price pressures remain.**

Prudent macroeconomic management, selective price controls, and the soum's *de facto* peg to the US dollar all helped to lower inflation which, according to official data, fell from double digits through the early 2000s to less than 10 percent during 2004-10. According to the State Statistics Committee (SSC), the CPI increased 7.2 percent year on year in 2010 (*cf.* Figure 2). Unlike in other countries in Europe and Central Asia, imported food price inflation is not a major risk because Uzbekistan is essentially self-sufficient in key foodstuffs. However, high foreign exchange inflows combined with a policy of nominal depreciation of the soum, high credit growth under the government programs, large increases in public-sector wages and social benefits, and the recent wide spread between the official and market exchange rates, are together creating inflationary pressures. Retail trade data indicate that actual inflation may be as high as 15 percent annually, twice the officially reported rate and similar to the International Monetary Fund's alternative CPI estimate.

Figure 2: Official inflation data, 1998-2010



Source: State Statistics Committee

D. Economic Prospects

15. **Overall growth is projected by the authorities to continue around 7-8 per cent annually during the strategy period, supported by commodity exports, domestic demand and investment.** The government has embarked upon a \$47.3 billion, five-year (2011-15) Industrial Modernization and Infrastructure Development Program; of which almost \$26 billion, or about 60 percent is allocated to investments in oil and gas; over \$5 billion, or about 11 percent to electricity; \$2.6 billion, or roughly 6 percent each to chemicals and metallurgy; and the remaining 16 percent to construction materials, machine-building, textiles, transport, and other industries. The program, comprising 519 large investment projects, aims to increase industry's share of GDP from 24 percent in 2010 to 28 percent in 2015. Sources of financing have already been identified for about \$30 billion, or 64 percent of the program, over two-thirds of which is expected to be funded by a combination of external loans and foreign direct investment (FDI), 25 percent by domestic investment and borrowing, and about 7 percent by the FRD. In this connection, external financing has already been secured for large projects in chemicals, hydrocarbons, and textiles—from China, India, Korea, Russia and Turkey—and about 23 percent of the program's projects are under implementation. While the program will not raise budget expenditures directly, it might increase public and publicly guaranteed external debt significantly, depending upon how much FDI can be mobilized.

16. **Trends in commodity prices will be an important determinant of economic outcomes and performance in the short- and medium-term.** Gold prices increased by about 26 percent on average in 2010, and are forecasted to increase by a further 16 percent in 2011, before trending down in 2012.⁶ Likewise, cotton prices are expected to remain much higher in 2011-12 than in 2005-09. The price of natural gas exported to Russia, after increasing by two thirds during 2008-09, is also projected to remain around its current level. Moreover, Uzbekistan will soon start selling natural gas

⁶ Source: Economist Intelligence Unit (EIU).

to China, thus diversifying its export market. As for imports, the impact of recently increasing world food and energy prices is expected to be limited because Uzbekistan is essentially self-sufficient in both food grains and energy.

Table 1: Uzbekistan’s macroeconomic framework, 2008-14

	Actuals		2010	2011	Projections		2014
	2008	2009			2012	2013	
Population (million)	27.3	27.8	28.2	28.3	28.7	29.0	29.3
National Accounts							
Real GDP growth rates, percent	9.0	8.1	8.5	8.3	8.0	7.8	7.5
Annual average GDP, US\$ million	27,934	32,818	38,974	46,114	53,344	57,239	63,285
Fiscal Balances (augmented Government, [incl. FRD]), US\$ billion							
Revenues	42.8	37.4	37.1	38.9	39.0	38.9	38.9
Expenditures	32.1	34.2	34.9	36.0	35.3	35.6	35.5
Consolidated fiscal balance	10.7	3.2	2.2	2.9	3.7	3.4	3.3
BoP (in percent of GDP), US\$ billion							
Current account	8.7	2.7	6.7	5.7	4.9	4.4	4.0
Exports, G&S	43.5	35.6	31.2	30.0	30.2	31.7	32.2
Imports, G&S	40.8	35.6	28.3	29.7	30.4	31.7	32.6
Gross reserves [incl. gold],	9.5	12.2	14.6	18.4	22.8	27.5	33.7
Relative prices							
CPI inflation rate (average), percent	7.4	7.8	7.2	7.7	7.5	6.9	6.5
Public debt							
External debt-to-GDP ratio	14.3	15.3	15.2	18.8	20.3	23.1	23.6

Source: Official Statistics and Bank staff estimates

17. **External debt is projected to increase gradually during the next few years.** The authorities’ conservative foreign borrowing policy and favorable credit ratings provide ample room for additional borrowing in the medium term.⁷ Given their plans to finance the public investment program with foreign loans, external debt is expected to increase gradually from about 15 percent of GDP in 2010 to about 24 percent of GDP in 2014⁸. Domestic public debt is small. Total domestic debt, including transactions between government accounts and the monetary sector, remains negative due to the accumulation of large fiscal savings at the central bank. Existing external public and publicly guaranteed debt is being serviced fully and there are currently no arrears.

E. Development Challenges and Opportunities

18. **To become a high middle-income country, Uzbekistan needs to continue to industrialize and expand domestic demand.** As other middle income economies in Asia and Eastern Europe start experiencing increases in relative factor prices, their industrial structure will shift from lower-end labor-intensive manufacturing to higher value-adding manufacturing and associated knowledge

⁷ Cf. ADB and IBRD positive creditworthiness assessments and the EIU’s “B” credit rating, which is comparable to Croatia, Indonesia and the Philippines.

⁸ Both the IMF and the WB teams estimate that Uzbekistan debt at around 15 percent of GDP in 2010. However debt figures may be revised based on the GOU’s recent official submission of debt statistics to DECDG for Global Development Finance report. According to this submission, Uzbekistan’s external debt was estimated at around 19.6 percent of GDP in 2010.

services. When the lower-end industries start migrating out of these countries, Uzbekistan may be able to capture a substantial share, thanks to its cheap and abundant labor, relatively high skilled work force, low cost utilities and infrastructure and relatively large domestic market. Also, as one of the largest food producers in the region, some segments of its agriculture sector have potential to bring high growth and greater value added to the economy.

19. **Critical elements for the transformation are to increase the efficiency and competitiveness of its economy.** One of the critical issues for Uzbekistan's industrialization vision is to ensure that the country offers competitive factor prices, adequate services, and a hospitable investment climate. Sound infrastructure to support agglomeration and cluster development of manufacturing industries could also help reduce external costs such as supply logistics and market accessibility to firms. While existing labor costs and utility prices are competitive, Uzbekistan is one of the most energy inefficient countries in ECA: its consumption of energy per unit of GDP is three times the ECA average and of electricity *per capita* four times the CIS average. While its transport infrastructure is adequately maintained, it still takes 93 days on average to import goods, due not only to its doubly-landlocked geography but also to outdated customs procedures and related governance issues. As a result, Uzbekistan ranked 107 out of 155 countries for the customs-related sub-component of the Bank Group's Logistics Performance Index (LPI). Its tariff rates are high and there are other tariff-equivalent measures as well. All these barriers make Uzbekistan's current trade regime one of the most restrictive in the ECA region. However, the most recent (2009-10) Business Environment and Enterprise Performance Survey (BEEPS) data indicates a gradually improving trend.

20. **Uzbekistan also needs a stronger financial sector so that it can support entrepreneurial activity.** Although financial intermediation measured by broad money to GDP has doubled—from 10 percent in 2003 to 20 percent in 2010—it remains low for a country at this income level. The authorities recently increased the capital of the largest banks to strengthen the long-term resource base for investment and to mitigate the consequences of the global economic and financial recession. However, significant amounts of national savings, public and private, are not channeled for economic development, due to weak financial intermediation. Financing for private agricultural enterprises has also been limited, evidence of which includes the immediate oversubscription of agricultural credits by private farmers offered by a Bank-financed credit program.

21. **Diversification of sources of growth based on private demand is key.** Uzbekistan needs more private sector entrepreneurs. Its large firms are mainly state-owned enterprises even in non-strategic, non-mining sectors. Their performance and accountability receive little public scrutiny; they remain major sources of inefficiency and rent-seeking; and they have stifled transfer of new technologies and innovation. Uzbekistan has yet to see large-scale entry of new private enterprises or investment. The share of small and medium-sized enterprises in GDP is officially estimated at about 53 percent in 2010—up from an estimated 45 percent during the last decade; and its FDI stock *per capita* of \$131 (2009)—one of the lowest within the CIS—is much less than the \$1,023-\$1,780 of the Caucasus countries, Russia, and Ukraine. In addition, small- and medium-sized private enterprises are not only agents of economic growth, but also of employment generation.

22. **Diversification of production towards higher value-added activities and sub-sectors is also important.** Compared to cotton, where state control over cropping patterns as well as input supply and output procurement remains substantial, horticulture can help private farmers move up the value chain and earn higher profit margins—in particular, in processing and exports. In textiles, garment production adds much higher value than yarn and textiles and requires advanced skills for marketing and sales. It also creates a greater number of jobs as well as a wider spectrum of

professional opportunities. Similarly, Uzbekistan's natural gas resources could be monetized by transforming them into petro-chemicals.

23. **Uzbekistan's social services—primary and secondary education, and primary health care—are well maintained.** According to government statistics, over 65 percent of public budgets are allocated to social services and are in line with international standards on a *per capita* basis. Uzbekistan's long-standing National Education Program has resulted in a satisfactory physical infrastructure, broad provisions of learning materials and equipment, a 100 percent primary enrollment ratio, and 99 per cent adult literacy. Life expectancy at birth was 68 years in 2009, close to the world average and that of other regional CIS countries. However, inter-regional differences are one of the remaining challenges.

24. **The growing population of young educated people will need employment.** Between 2004-09, the working age population is estimated to have grown from 14.6 million to 16.8 million, while actual employment during the same period increased only from 9.9 million to 11.3 million (68 percent and 67 percent of the working age population respectively). Those who could not find employment at home, many from rural communities, migrated to find employment abroad. The number of Uzbek migrants in Russia and Kazakhstan is currently estimated at about 2 million, or about 12 percent of the country's working age population. While remittances, estimated at about \$1.8 billion or 4.5 percent of GDP in 2010, help low income families maintain a minimal standard of living, more jobs need to be created within the country. In addition, structural changes in the economy will bring about changes in the nature of the skills development required in vocational and higher education.

25. **Improving governance will help enhance the effectiveness of industrial development.** The authorities' large scale medium-term program for industrial modernization and associated infrastructure development relies predominantly on state-owned enterprises (SOEs). The success of their SOE reform strategy will depend on SOEs' capacity for continuous change, leading to greater efficiency through the adoption of new technology, cooperation with foreign investors, and production of competitive products or public accountability for services. To achieve this objective, much stronger and more transparent governance and accountability structures are needed.

26. **A final related challenge is the need to improve access to information on government policies and their outcomes, as well as on the living standards of the population.** Despite the existence of several formal institutions, public accountability remains in practice limited. Reasons for this include: the *de facto* dependence of the legislative and judicial branches of government on the executive; a nascent mass media that remains essentially government controlled; a still nascent civil society. Moreover, the limited access and poor quality of key economic, financial, and social data impedes a detailed, realistic assessment of the country's economic policies and performance. While the government has recently taken initial steps towards improving data transparency and information sharing (*cf.* Box 1), substantial improvements in the quality of national economic statistics and the dissemination of economic data through internationally recognized channels remain a high priority.

F. Government Priorities and Medium-Term Strategy

27. **Uzbekistan's strategic long-term development goal is to become an industrialized, high middle-income country by mid-century.** The authorities' approach toward achieving this goal is to continue the gradual transition to a more market-oriented economy, to mitigate the potential negative consequences of external shocks, to ensure equitable distribution of growth across regions, and to maintain infrastructure and social services at an adequate level. Their long-term strategic development goal is clearly ambitious: it implies *inter alia* that the economy will need to grow at an

annual average rate of 8 percent for the next 20-30 years, with GDP *per capita* reaching about \$6,500 by 2030 and over \$13,000 by 2040. According to the 2008 Growth and Development study, only 13 countries have been able to sustain this high level of growth for such an extended period.⁹ The same study also emphasizes that the transformation of a low income economy to a middle or high income one requires significant structural changes.

28. **Against this background, the authorities' medium-term growth and development strategy is reflected *inter alia* in: (a) the \$47.3 billion, five-year Industrial Modernization and Infrastructure Development Program (2011-15); and (b) four recently issued presidential decrees.** The latter cover the financial sector, industrial development, infrastructure, transport and communications, and economic reforms. These documents, together with President Karimov's statement at a government meeting to discuss 2010 outcomes and 2011 priorities, embody the following four cross-cutting development policy goals and priorities:

- to increase the efficiency of infrastructure, especially of energy, transport, and irrigation;
- to enhance the competitiveness of targeted, strategic industries, such as agro-processing, petrochemicals, and textiles;
- to diversify the economy, in particular to reduce its reliance on commodity exports; and
- to improve access to and the quality and outcomes of education, health and other social services, so that the benefits of overall growth are shared equitably by the entire population.

29. **These goals and priorities are important prerequisites for continuing and sustaining longer-term growth.** Their achievement, however, will ultimately depend on greater progress towards reducing the structural distortions inherent in Uzbekistan's gradualist, state-led development model and strategy. As noted in the preceding analysis of the country's development challenges and opportunities (paras.18-26), these include the issues discussed in the following paragraphs.

30. **Industrial Development.** The authorities have identified several strategic industries as priority candidates for industrial development and they plan to provide large scale financing. While certain industries are competitive, *e.g.* petrochemicals and higher-value added agro-processing, the comparative advantage of several others is less clear. More detailed assessments of these industries may be needed to ensure that Uzbekistan's true comparative advantages are realized, given the rapidly changing global economy.

31. **Trade regime.** As part of the diversification agenda, various measures are planned to encourage exports by small and medium-sized enterprises—such as the establishment of an export promotion agency and the adoption of international quality standards. The authorities have plans to gradually liberalize the trade regime—and to reduce transaction costs by streamlining customs procedures and reducing customs duties. But currently its trade regime remains one of the most restrictive in the ECA region

32. **Private sector.** As part of their competitiveness agenda, the authorities recognize the need to expand the private sector *inter alia* through protecting private property, reducing government controls, and minimizing the costs of doing business. However, there is still no clear implementation

⁹ The Growth Report—Strategies for Sustained Growth and Inclusive Development (Commission on Growth and Development)

plan for enhancing the private sector's role in the economy. In the absence of such a strategy and of much greater private sector development—including in agriculture, where liberalization of the state procurement system for cotton could increase incomes and unleash new opportunities for productivity growth in the rural economy—the authorities' competitiveness and diversification goals may be difficult, if not impossible, to achieve.

33. **Financial sector.** The authorities plan to implement various measures designed to further enhance the banking system and develop non-bank financial institutions. However, restrictions on access to foreign exchange and to local currency in cash remain major obstacles in Uzbekistan's business environment and investment climate. Until these constraints have been mitigated or removed, it may be difficult to attract the levels of investment required for the financing of the government's \$47.3 billion industrial modernization and infrastructure improvement program, two thirds of which is supposed to be financed by foreign loans and foreign direct investment.

34. **Social equity and inclusion.** In health, the government's plans focus on achieving the MDGs and envision improvements in primary, emergency and specialized health care, preventive health measures, and a gradual transition to output-based financing. In education, the objective is to maintain high literacy rates, move to 12 years of mandatory free education, and improve the quality of primary, secondary and tertiary education (*e.g.* a new higher education development program that envisions improving laboratory equipment, curricula, and professors' salaries), while maintaining universal access to basic education. The authorities also envisage creation of millions of new jobs in small enterprises, mainly in rural areas, and in home-based businesses through labor contracting and improved provision of infrastructure and services. They also highlight the importance of refocusing social assistance so that it targets the poor, but provide few details as to how this will be done.

35. **Governance and transparency.** The authorities have issued decrees and made major statements which lay down principles for promoting the development of non-governmental organizations and assisting in the growth of the media. However, these documents provide few details about how goals such as reducing legal restrictions on information disclosure are to be achieved.

III. BANK GROUP PARTNERSHIP STRATEGY

A. Lessons Learned from previous CAS and Stakeholder Feedback

36. **The FY08-11 CAS Completion Report rated CAS program results and Bank Group performance as moderately satisfactory.**¹⁰ This outcome mirrored the country's moderately satisfactory progress towards its development goals. Relatively strong performing areas included macroeconomic management, education, health, water supply and sanitation. Relatively weak performing areas included agriculture, governance, transparency and financial and private sector development. While the number of operations approved was in line with expectations in mid-2008, the total \$533 million committed by end-FY11 was significantly higher. This was partly because Uzbekistan utilized more of its IDA allocation than expected and partly due to the resumption of limited IBRD lending in FY11 as well as the addition of two new energy operations. Analytical and advisory as well as technical assistance activities were implemented largely as planned, except for poverty analysis and the private sector. Portfolio performance remained moderately satisfactory.

¹⁰ *Cf.* Annex 5: Country Assistance Strategy Completion Report (CASCR), FY08-11

37. **IFC focused on strengthening the private sector through several advisory projects.** These facilitated technical improvements in the business environment, supported financial sector development, and promoted private sector participation in infrastructure. In addition, IFC invested \$8 million in two financial sector projects, including a first equity investment in one of the country's few privately-owned banks.

38. **The FY08-11 CAS incorporated several lessons learned from the preceding interim strategy (ISN) and more broadly from the Bank Group's experience in Uzbekistan since the early 2000s.** These included the following: (a) despite the slow pace of structural reforms and diverging views of the Bank and the government in several areas, a solid engagement through investment projects can create effective entry points for policy dialogue; (b) IFC's long-standing and constructive relationship with the government through advisory projects has not yet translated into significantly increased direct investments, due to the difficult business environment and the government's active engagement in private sector operations; and (c) given the country's limited capacity for project implementation, renewed attention needs to be paid to generic issues, such as the country's public procurement process and project management.

39. **The outcomes recorded in the Completion Report have validated the accuracy and relevance of these lessons learned**—especially as they relate to investment projects as entry points for encouraging structural reforms in some sectors where ESW engagement alone might be ineffective. Given their systemic nature, they have continued to inform the design and content of the FY12-15 CPS. In addition, four more detailed lessons emerge from experience since mid-2008:

- the quality, relevance, timeliness, and value of the Bank's economic analysis and policy advice—both macro and sector-specific—remain constrained by the limited availability and poor quality of official economic, financial and social data;
- the Bank's project cycle and the government's internal process for approving investment projects are still not well aligned, causing significant delays in credit or loan signing and effectiveness and thus in initial project implementation;
- the failure to address fundamental policy differences during project design leads to poor portfolio performance. The credit for *Energy Efficiency for Industrial Enterprises*, approved in mid-2010 but which only became effective more than one year later, is the most recent example; and
- the Ministry of Foreign Economic Relations, Investment and Trade's (MFRIT) procedures for contract *expertise* need to be streamlined. In particular, its often protracted process for 'price verification' of contracts awarded following competitive bidding continues to complicate and delay the procurement process and, ultimately, project implementation.

Early government action to address and resolve these issues will be an important prerequisite for effective and efficient implementation of this CPS.

40. **Stakeholder consultations at the national and local level in March 2011 offered several important insights for the design and preparation of this CPS.** Consultations were held with central and local government officials as well as with representatives of the private sector and civil society (including women's groups). Specific events included: meetings with key Ministers, both one-on-one and in groups; and meetings with local government officials and civil society groups and

the private sector in the city of Tashkent and in the regions of Bukhara, Fergana, Kashkadarya, Navoi, and Samarkand and Karakalpakstan. These consultations validated the importance of the goal of achieving growth with equity in Uzbekistan and provided support for the CPS four strategic objectives. Not surprisingly, support for the competitiveness and diversification agenda was strongest among the private sector and local government officials, while support for increasing the efficiency of infrastructure, improving access to social services, and the CPS governance and transparency objectives was strongest among representatives of civil society. Consultations at the sub-national level proved useful in providing an appreciation of the scope for tackling inter-regional disparities.

B. Proposed Bank Group Strategy

41. **The CPS' principal goal is to support implementation of the efficiency, competitiveness, diversification, and social equity elements of the government's medium-term development strategy.** It will continue with the two-track approach employed under the previous CAS, *i.e.* full or limited engagement, depending on results achieved. In practice, CPS support for the result areas, where government and Bank Group views on sector-specific reforms and strategy broadly converge, will broaden and deepen the operational involvement and related policy dialogue already in place from the previous CAS. These programs, comprising full engagement, will thus maintain a high degree of continuity with the previous CAS. They include: (a) increasing the efficiency of infrastructure (energy, drainage, irrigation and water management, and, potentially, transport); and (b) human development and social inclusion (education, gender, health, poverty, and municipal services). Conversely, support for the government's industrial competitiveness and economic diversification agenda, where government and Bank Group perspectives differ, will be limited initially to analytical and advisory services and possibly technical assistance. Effective fulfillments of these agenda areas will require structural reforms related to trade, the financial sector, and the business regulatory environment as well as public sector management and institutions. Whether or not these limited activities lead to more comprehensive, full engagement will depend upon the Bank assessment of government intentions and progress in the reform areas concerned. Overall, the CPS' framework and the program outlined below reflect the reform priorities that emerged from last year's dialogue with the authorities on the outcome of Uzbekistan's 2009 country performance institutional assessment (CPIA). They are also broadly aligned with the ECA region's three strategic pillars of competitiveness, inclusion, and climate change.

42. **A recently completed creditworthiness assessment reaffirmed Uzbekistan's eligibility for IBRD lending.** However, since its GNI *per capita* income exceeded the IDA operational cutoff for the first time only in 2010, Uzbekistan will retain its access to IDA resources for the entire FY12-15 CPS period, with no explicit timetable for graduation. The creditworthiness assessment also recommended that the CPS focus on: (a) improved data transparency and reliability to enable the monitoring of credit risk; (b) measures to improve the business environment; and (c) reforms necessary to sustain high growth rates and diversify the economy away from a declining stocks of primary commodities.

43. **The focus on investment lending and its emphasis on improving the business environment and on data transparency is consistent with the creditworthiness assessment's recommendations.** Planned lending is directed primarily towards investments and related reforms designed to increase the efficiency of infrastructure, to diversify the economy, especially agriculture, and to promote social inclusion and human capital development—all necessary conditions to sustain high rates of sustainable growth. Likewise, non-lending activities will focus on measures to improve the business environment and investment climate, to promote private sector development, and to

strengthen institutions for competitiveness, including continued progress in public information disclosure and data transparency.

44. **The provisional IBRD/IDA lending program comprises sixteen operations over the four years FY12-15.** Eleven would support reforms and investments for achieving sustainable growth and reducing reliance on primary commodities directly, including more efficient energy use and diversification of exports. The total financial envelope will be \$1,350 million¹¹, comprising \$710 million IBRD and \$640 million IDA, of which \$540 million is the amount available to Uzbekistan during FY12-14 under IDA-16.¹² Although much larger than the original IDA-only allocation in the previous CAS, this IBRD/IDA \$325 million annual average would be in line with the actual outcome in FY11. Two operations—for Advanced Electricity Metering and Alat-Karakul Water Supply—are at an advanced stage of preparation for delivery in FY12.

45. **Besides new lending, the existing, recently expanded portfolio of investment projects will support the infrastructure efficiency and social equity elements of the government's strategy.** Six of ten investment projects totaling \$433 million, or 68 percent of the current \$634.7 million portfolio, were approved during the last two years (FY10-11), including four for education, health, and municipal services. Given their significance in terms of direct support for implementation of sector-specific reforms in these areas, management and supervision of these operations will be an important component of the program, especially during the first two years.

46. **Proposed analytical and advisory engagement would cover all four elements of the government's growth and development strategy.** Thus, in addition to project-related analytical and advisory services and technical assistance in the infrastructure efficiency and human development result areas, the provisional summary of analytical and advisory services includes a proposed joint strategy report—"Uzbekistan Vision 2030"—that would lay out roadmaps to achieve selected key development goals. These goals include industrial development, the competitiveness and diversification agenda, as well as a series of policy notes designed to address comparative advantage and structural reform issues in specific industries selected by the government. In line with other similar ongoing exercises, such as "China Vision 2030", particular attention will be paid to collaborative or joint analytical work with relevant Uzbek think tanks, with an emphasis—in addition to the planned vision report—on providing 'just in time' policy advice and technical assistance to maximize the impact of analytical and advisory program.

47. **Building upon the positive results achieved during the previous CAS, sector policy dialogue will address strategic issues and provide deeper analytical underpinning for planned lending operations.** For the efficiency agenda, a water utility note will address sector-wide effectiveness and institutional issues, based on the preliminary findings of a recently completed fiduciary review, and provide the policy framework for proposed water supply and sanitation investment lending. In addition, a planned energy sector strategy review will analyze efficiency issues in a holistic manner as background for preparation of a proposed downstream electricity distribution project. As regards the diversification agenda, a horticultural sector study will explore practical options for developing higher value-added agriculture activities as the basis for preparation

¹¹ Overall lending amounts will depend on the IBRD's lending capacity and demand by other borrowers as well as Government demand and performance in the course of the CPS period.

¹² Depending upon its continued IDA eligibility, Uzbekistan's IDA-17 allocation is expected to be at least as much as under IDA-16, subject however to the total IDA resources available, the country's CPIA rating, the total number of IDA-eligible countries, the performance and assistance terms of these other IDA-eligible countries, and the terms of IDA's assistance, which are determined annually and based on the risk of debt distress. IDA allocations are denominated in SDRs, with the US dollar equivalent dependent on the prevailing exchange rate.

of a horticultural operation. A series of technical engagements in the financial and private sectors—innovation, quality infrastructure, information and communications technology, mortgage finance, and new business registration—have resulted in a proposed program of private sector development policy notes and a proposed credit access operation. However, the pace and scope of these analytical and advisory services will ultimately be determined by the government’s own agenda, priorities, and political will.

48. **Uzbekistan is a relatively small recipient of Bank Group-managed trust funds, with a \$3.8 million portfolio and disbursements averaging about \$800,000 annually.** Well integrated into the country program, trust fund financing has proven especially instrumental in: (a) expanding the Bank Group’s ability to provide advisory services; and (b) piloting activities for eventual mainstreaming (*e.g.* the Karakalpakstan silk development pilot, global partnership on output-based aid, and energy efficiency strategy for manufacturing). Additional trust fund resources for similar advisory services and pilot activities will be sought during the CPS period, although the main focus will be on implementation of the nine existing activities.

49. **The strategy is consistent with regional strategies and programs for Central Asia.** The Bank Group contributes to the sound management of water resources for both irrigation and power generation in Central Asia at the regional and country levels. As part of its regional approach, the Bank has initiated a comprehensive Central Asia Energy-Water Development Program (CAEWDP), which aims to improve diagnostic and analytical tools to help the countries in the region manage their water and energy resources, strengthen regional institutions, and stimulate investments, in coordination with other development partners. It includes assessments of Uzbekistan-Afghanistan-Pakistan regional electricity trade and United States Agency for International Development (USAID) funded work on a Regional Energy Markets Assistance Program. The Bank also works together with German International Cooperation (GIZ) and the United Nations Economic Commission for Europe (UNECE) on institutional strengthening of the International Fund for Saving the Aral Sea (IFAS).

50. **IFC will maintain its focus on private sector development through a combined investment and advisory approach.** It will seek opportunities in the following priority areas: (a) direct investments in the real sectors, such as general manufacturing, services, and agribusiness; (b) strengthening privately owned banks; and (c) encouraging public-private partnerships, especially in infrastructure. Through financial sector intermediaries, IFC will provide credit lines for small and medium sized enterprises to support job creation and diversification of the economy and will try to extend trade finance lines, a relatively new product, to facilitate private sector trade flows. On-lending by banks to SMEs will be enhanced by the financial infrastructure advisory project to further develop credit information sharing systems and facilitate the introduction of risk management certification as well as develop modern collateral registry jointly with the World Bank. Real sector investments may include projects with international joint ventures, especially in export-oriented projects, as well as projects that introduce modern technologies and increase domestic value-added. Infrastructure advisory work will continue.

C. Expected Results and Program of Lending and Analytical and Advisory Activities

Result Area 1: Increasing the efficiency of infrastructure

51. **Activities in this result area will support sustainable growth through increased efficiency of energy, transport, and water resources management**—in line with the 2010 Presidential Decree (1446) on *Acceleration of Development in Infrastructure, Transport and*

Communications Construction. In addition to completion of three ongoing operations—*Enterprise Energy Efficiency phase I*, *Talimarjan Transmission*, and *Ferghana Valley Water Resources Management-Phase I*—the Bank plans to initiate new lending and associated analytical activities in electricity metering and distribution, in transport, and in water resources management. IFC's PPP work in infrastructure would also contribute to these government objectives.

1.1 Sustainable infrastructure development

52. **Despite being one of only two double landlocked countries in the world, Uzbekistan's strategic location between Asia and Europe makes it a key transit point for Central Asia.** The transport sector's performance and contribution to the government's efficiency, competitiveness and diversification agenda is therefore an important component of its medium-term development strategy. Using international standards and practices, the government has initiated a series of measures aimed at improving the efficiency of transport operations and services while reducing costs and environmental footprint. Bank engagement—a proposed transport assessment (FY12-13) followed by a potential transport lending operation (FY15)—will be targeted towards improving the country's links with the global market place, increasing the efficiency of various transport modes, preserving the value of existing assets, and upgrading civil works and construction management practices to international standards. These activities will also address the transport system's environmental footprint and safety dimensions and, through seminars and the proposed transport assessment, knowledge sharing about international good practice.

1.2 Improving water resources management and climate change preparedness

53. **Activities in this area will continue to focus on development of sustainable water management systems for irrigation and addressing associated land quality and drainage problems.** With more than 85 percent of Uzbekistan's cropland dependent upon irrigation, in turn comprising about 10 percent the country's total land area, the availability of water and its efficient and sustainable use is arguably one of the country's most important development challenges. Bank support to upgrade and improve the efficiency of the irrigation and drainage network in selected districts will continue through two ongoing projects—*Rural Enterprise Support Project (RESP) II* and *Ferghana Valley Water Resource Management-Phase I*—and in FY13 a proposed *South Karakalpakstan Drainage Project* in northwest Uzbekistan, one of the country's poorest regions.

54. **At the regional level, activities will continue to support ongoing Bank Group regional initiatives**, such as the Central Asia Energy-Water Development Program (CAREC), CAREC's Energy Sector Coordinating Committee work program¹³, and the International Fund for Saving the Aral Sea (IFAS). These activities include the following: (a) an ongoing Uzbekistan-Afghanistan-Pakistan (UAP) electricity supply and trade study to assess the potential for regional electricity trade and, more broadly, regional integration of electricity markets in Central and South Asia; (b) strengthening mathematical modeling of water management in the Amu Darya and Syr Darya river basins under the ongoing CAREC work program; (c) strengthening Central Asia's weather, water, and climate services through the recently approved *Central Asia Hydrometeorology Modernization Project (CAHMP)*; and (d) technical assistance and capacity building in water and energy resources management. Under these programs, opportunities exist to leverage Uzbekistan objectives and regional funding for both energy and transport infrastructure and water resources management.

¹³ As approved at the November 2009 CAREC Ministerial Meeting.

Result Area 2: Enhancing the economy's competitiveness

55. **Activities in this result area aim to support government priorities for enhancing the economy's competitiveness.** Since this will require significant reforms to reduce the structural distortions inherent in the government's development strategy, broadening and deepening the policy dialogue with the authorities will not only be a significant challenge, but also a prerequisite for meaningful CPS engagement in this area. Thus, unlike Result Area 1, where existing and planned investment lending accounts for a large share of targeted outcomes, analytical and advisory activities will be the main instruments for Bank engagement. Two areas are envisaged: (a) strengthening institutions and macroeconomic environment; and (b) enhancing the competitiveness of strategic industries and promoting exports.

2.1 Strengthening institutions and macroeconomic environment

56. **The key instrument for the competitiveness agenda would be a joint strategy report "Uzbek Vision 2030".** This will be carried out early in the CPS period at the request of the government. The report will analyze the potential sources of high and sustained growth that could be exploited as it moves towards a more competitive, diversified economy. Policy recommendations will aim to maximize the potential of the economy to maintain real GDP growth and generate more jobs, focusing on macroeconomic management, international trade policy, the business environment and enterprise reform, and labor market policies. The report will be supported by regular macroeconomic policy dialogue, in conjunction with the IMF.

2.2 Enhancing the competitiveness of strategic industries and promoting exports

57. **The government plans to promote export-oriented strategic industries** as defined in the Presidential Decree (1442) on "*Priorities for Industrial Development, 2011-2015*". Although views between the Bank and the Government differ on how to reach this important objective, the Bank will develop a series of policy notes on the competitiveness or otherwise of selected industries, designed to provide the government and other stakeholders with a diagnostic analysis, including the constraints impacting a particular industry's competitiveness and suggest a roadmap for policy actions. IFC will seek to promote selected export-oriented industries by partnering with foreign investors planning to set up joint ventures in Uzbekistan.

58. **Uzbekistan has made export diversification—particularly into production of higher quality goods—and technological upgrading a main priority of its development strategy.** Upgrading the national quality infrastructure, which includes standardization, accreditation, certification and metrology, is a central part of this strategy. A modern and internationally harmonized national quality infrastructure (NQI) will give Uzbek firms the tools to surmount existing barriers to quality production and exports, and benefit from foreign technologies embedded in standards and in modern testing, measurement and certification procedures. In FY12, the Bank will continue to work closely with *Uzstandard* and relevant ministries to identify areas for technical assistance. It would eventually lead to greater contributions by the private sector to the export diversification while existing state-owned enterprises will continue to make a fair share of contributions until the private sector in the country develops to a larger extent.

59. **The CPS will also provide support for initiatives by the Ministry of Economy (MOE) and the Ministry of Foreign Economic Relations, Investment and Trade (MFERIT) to promote exports.** Proposed technical assistance will support the development of policies and programs

designed to promote an export-oriented economy, taking into account the lessons of international experience from Eastern Europe, East Asia and elsewhere. Specific areas will include the design and scaling-up of financial instruments to promote exports (trade finance, guarantees, credit lines for SMEs), carrying out an export process mapping to reduce the number, time and costs of export procedures, and contributing to the planned development and implementation of a “one-stop-shop”. IFC’s direct lending to the real sector as well as on-lending to SMEs and trade finance lines through the financial intermediaries will also contribute to these objectives.

Result Area 3: Diversifying the economy

60. **In support of the government’s objective to diversify the country’s sources of growth, the CPS will help provide a comprehensive platform of assistance to support enterprise reform and modernization.** Targeted areas of support include: business environment reforms; accelerating innovation and ICT development; and upgrading of the country’s national quality infrastructure. In addition, the CPS will support selected value chains in agriculture and livestock by continuing to provide financing opportunities with particular focus on non-cotton related activities. In addition, it will support the formulation of a horticultural strategy (FY13), paving the way for a possible horticultural project (FY14).

3.1 Strengthening the foundations for private sector-led diversification

61. **The Bank Group will continue policy dialogue on private sector development, the business environment and the investment climate.** Through an investment climate reform advisory task, the Bank will assist in further developing an institutional and regulatory framework conducive to encouraging private sector-led diversification. The strategy objective is to develop a strategic engagement that can offer concrete recommendations and assistance for reforms that are implementable and that ultimately result in an improved business environment. In addition, the Bank Group will support private sector development in rural areas by scaling up activities under the ongoing *RESP II*. Following completion of its long-standing broad-based investment climate and business environment advisory work, IFC will contribute to private-sector led diversification through new forms of advisory projects more narrowly focused on the PPP agenda and financial infrastructure, as well as through possible direct investments in priority sectors.

62. **Given the government's intent to attract increased FDI, and while the availability of political risk insurance for investments into Uzbekistan is still limited, there is a demand for MIGA's products.** Sectors potentially suitable for expanded MIGA engagement in the course of CPS implementation are energy (oil and gas production and transportation) as well as foreign investment in health sector PPPs.

63. **Uzbekistan’s banks continue to face challenges in meeting the needs of small and medium-sized enterprises.** In addition to the ongoing *RESP-II*, which improves access to credit by small- and medium-sized agricultural enterprises, the Bank plans to prepare a possible microfinance operation towards the end of the CPS period. To support reforms in the area of financial access, the CPS will also provide targeted technical assistance to the Central Bank of Uzbekistan (CBU) to help improve a secured transaction system and increase the efficiency of credit information sharing in accordance with international good practices. IFC will continue supporting the privately-owned segment of the banking sector with targeted lending for SMEs and explore opportunities for providing trade finance to private companies.

3.2 Diversifying agriculture

64. **Agriculture is the sector where efforts to diversify output and exports could produce results in the medium-term.** Agriculture accounts for about 20 percent of GDP, 15 percent of export revenues, and still over one-third of employment. CPS interventions will focus on two key challenges: (a) diversifying agriculture away from cotton and wheat into other high value crops such as fruit and vegetables, as well as livestock; and (b) intensifying agricultural yields and productivity. These will be supported by additional financing for the credit-line component of *RESP II*, with a focus on crops other than cotton, as well as analytical and advisory activities to develop a horticulture strategy that would pave the way for preparation of a horticulture project. These activities will also help further develop Uzbekistan's domestic market and encourage a gradual shift from the cotton state order system and public intervention towards a more liberal and diversified agricultural sector.

Result Area 4: Improving access to, and outcomes of social services

65. **This result area will support the government's objective to reduce regional and rural-urban inequities through promoting social inclusion and human capital development.** To this end, the Bank would initially address the following government requests through recently approved lending (under the previous CAS) and studies: (a) improving the quality, and equitable access to early childhood education and basic education services; (b) providing more accessible quality and sustainable health services, especially in the rural areas, (c) continuing to improve the coverage and sustainability of potable water supply and sanitation services, and (d) improving the social protection system, especially the targeting of assistance to the most vulnerable groups.

4.1 Strengthening the quality of health and education and improving access to early childhood development

66. **CPS support for health will comprise a combination of investment operations, technical assistance, and related analytical and advisory services to extend and deepen ongoing reforms.** Thus, CPS activities will focus on secondary care, medical education, drug policies and implementation of a multi-sectoral public health strategy. Technical assistance and analytical work on the role of the private sector and output-based financing will continue throughout the CPS period.

67. **CPS support for education will continue improvements in the quality of basic education and tackle access to and the demand for pre-school education.** The ongoing second *Basic Education Project* supports efforts to improve the effectiveness of teaching and learning through: (a) targeted interventions in selected general secondary education schools and preschools in rural poor areas; (b) development of institutional capacity to assess student learning; and (c) adoption of predictable and transparent school budgets nation-wide. Pre-school coverage is only 16-20 percent and parenting programs are negligible. Through a proposed *Early Childhood Education* project, the CPS will include more flexible provision of preschools to increase enrollment, address parental perceptions of the importance of preschool education especially in rural areas, and carry out interventions that would increase the demand for pre-schooling.

4.2 Water Supply and Sanitation

68. **Rehabilitating and expanding the country's water supply and sanitation infrastructure remains a top government priority.** In addition to the utilities' substantial investment and capacity needs in both urban and rural areas, a major challenge is to optimize their roles and capacities for developing and implementing a more effective and sustainable water strategy. This entails matching

financing mechanisms to sector priorities and strengthening its regulation and governance towards achieving higher efficiency and sustainability of public expenditure, while leveraging better management and performance of operators. CPS support will include ongoing work designed to strengthen water sector governance and capacity. This will include studies on financial and institutional aspects of water supply and sanitation and integrated management of water resources. It will also include lending for water supply (*Alat-Karakul*) and sewerage (*Karakalpakstan*)—with the latter to be integrated into two larger programmatic operations (*Water & Sanitation Sector Investment Projects 1 & 2*) that would establish rules of project engagement, give the government greater planning flexibility, and, at the same time, create accountability for quality of feasibility studies, project design, preparation, and outcomes. The indicative program also involves technical assistance for institutional capacity building and identification of potential sector reforms.

69. CPS support is also envisaged for integrated urban development projects in major cities. Municipalities suffer from a backlog of infrastructure investments, weaknesses in service provision, and inadequate or non-existent town development plans or strategies. Diversifying from the exclusive focus on water supply and sanitation, these integrated projects will address various municipal investment needs, including solid waste management, infrastructure including roads, public heating, information and communications technology (ICT), electricity, community-based heritage protection and tourism promotion. A first project is tentatively planned for FY15. The CPS also provides for a municipal services sector review.

4.3 Promoting social inclusion

70. Uzbekistan's mahallah (community-based) social protection system is designed to benefit poor families. Over the years, however, targeting efficiency has weakened due to different patterns of economic development, such as the increasing role of informal sector earnings and remittances, and the delegation of additional responsibilities to the *mahalla* administration. Building on the achievements of the existing system, the Bank Group will help address these emerging challenges by introducing efficiency enhancing innovations (*e.g.* an electronic registry of beneficiaries, and proxy-means based identification criteria.). These activities will support evolving reforms aimed at effective implementation and results monitoring of these and other social protection policies and programs, as well as the management of the system as a whole. They will also allow for up-to-date information on the ability of the existing social protection system to identify and target the poor and for quick remedial interventions. Meanwhile, the Civil Society Development Fund managed by the Bank Group's Country Office in Tashkent awards 7-9 small grants annually for social empowerment and inclusion projects implemented by civil society organizations.

Cross Cutting Result Area: Governance

71. Given the country's challenging governance and transparency environment, the CPS will broaden and deepen the focus on these two areas started under the last CAS. First, it will continue support for development of Uzbekistan's public finance management system, based on international best practice and public expenditure and financial accountability (PEFA)-type benchmarks. Specifically, following the recently completed Country Integrated Fiduciary Assessment (CIFA), a full PEFA assessment will be undertaken in FY12. Second, building upon the 2009 governance assessment of primary health care services and the operational work under ongoing water supply and sewerage operations, the CPS will include activities designed to improve the governance, management, and performance of sector and project institutions, especially in water supply and sewerage and energy. Third, the CPS will continue policy dialogue and technical assistance aimed at improving public access to, and the quality of basic economic, financial, and

social data. In this context, a recently approved \$40,000 project financed under the ‘Demand for Good Governance’ window of the Development Grant Facility (DGF) aims to improve public oversight of government- as well as Bank Group- financed projects in Uzbekistan through creation of a countrywide monitoring and evaluation network of civil society organizations (CSOs). Benchmarks for progress in data transparency include: improved accounting and reporting systems; increased financial data disclosure; an operating external audit function, with adequate human capacity and using international standards; and improved internal controls and effective internal audit functions across key budget organizations.

D. Implementing the Country Partnership Strategy

72. Inherent in the two-track, full or limited engagement approach successfully employed under the previous CAS is the continued need for flexibility in both program design and implementation. There are two main reasons for this. First, although Uzbekistan has weathered the global recession better than most countries, the still uncertain pace and scope of the global economy’s recovery may impact its key commodity exports and thus its medium-term growth prospects. Second, while the authorities appear committed to the goals of their competitiveness and diversification agenda, whether there is commensurate political will for the difficult structural reforms required remains unclear. Thus, the lending program outlined above, in Annexes 3 and 4 and B3, and the summary of non-lending services listed in Annex B4, are both illustrative and subject to potentially significant change, especially in the second half of the period (FY14-15).

73. Thus, the CPS program will be reviewed annually and adapted as may be needed to ensure its continued consistency with the authorities’ medium-term development strategy. A CPS Progress Report in FY14 will assess the CPS’ strategic direction, based on results agreed with the government and reflected in the results matrix. Meanwhile, in addition to routine implementation support and supervision of individual operations, the annual country portfolio performance review (CPPR) process will be resumed, focusing jointly with the government on ongoing or emerging systemic issues. Mid-term reviews of project implementation will assess any needs for restructuring to align project development objectives with ongoing CPS priorities, to enhance linkages to analytical and advisory services, and to implement monitoring and evaluation systems to monitor outcomes. Most attention will be given to the six relatively new operations that are likely to have the greatest impact on the strategy outcomes.

74. Given the recent and anticipated increase in the size of the portfolio, implementation support will be enhanced, in particular for procurement management. As noted earlier, dialogue is already underway with the authorities with the aim to streamline MFERIT’s contract *expertise* process. If contract registration is not completed within an internationally accepted period, the Bank will apply its new (January 2011) Guidelines for Procurement and declare misprocurement, as appropriate. In addition, procurement staff in the Bank Group’s Country Office in Tashkent is being strengthened. Meanwhile, the authorities, specifically the COM, have already established enhanced monitoring procedures for implementation of Bank Group-financed projects.

75. The CPS program is consistent with the Bank’s Gender Strategy and Gender Action Plan (GAP) and seeks to promote analysis and ultimately operational activities focusing on women’s economic empowerment. The GAP also emphasizes the demand side of the gender equation by promoting closer operational collaboration with clients as well as expanding their capacity to design, implement and monitor gender-sensitive policies and programs. The CPS will address gender issues through existing and proposed new operations, capacity building, and by

including gender-disaggregated data in project monitoring and evaluation systems. Box 3 below outlines the five main activities that make up the gender strategy.

Box 3: CPS Gender Strategy

- **Project interventions**—For **new** projects, a gender expert will develop project-specific interventions, if analysis during social assessment indicates that the project is suitable for addressing gender issues. For **ongoing** projects, incremental interventions designed to strengthen their gender focus will include the following:
 - *RESP-II* will include additional focus on female farmers’ participation in project-sponsored trainings (if necessary, by means of a quota);
 - *RESP-II, Drainage, and Ferghana Valley Water Resources Management* will seek to involve more women in the WUA decision-making process;
 - *Basic Education*—the teachers’ training component will include additional efforts to promote gender sensitivity;
 - *Talimarjan Transmission*—based on an ADB-sponsored gender assessment and plan of action, the project will include gender-specific activities.
- **Capacity building**—to help improve Bank staff and government officials’ understanding of and sensitivity to gender issues, team members of the 2011 ECA Gender Assessment and 2012 WDR on Gender Equality and Development will be invited to make presentations in the Country Office in Tashkent. In addition, Project Implementation Unit (PIU) staff will be encouraged to arrange training in gender issues by gender experts.
- **CPS Progress Report**—the FY14 CPS mid-term review and Progress Report will seek to provide gender-disaggregated data on all relevant ongoing and proposed operations.
- **CPS Monitoring & Evaluation**—during implementation, a simple CPS monitoring and evaluation system will be developed to capture and analyze the gender impact of Bank Group activities.
- **Development partner coordination**—during CPS implementation, the Bank Group will seek to coordinate and ultimately main-stream its gender-related activities with other development partners, especially the ADB, UNDP and UNICEF.

E. Partnerships and Donor Coordination

76. **Overall, official development assistance (ODA) to Uzbekistan, never very large, remains limited.** Except for ADB, the multilateral institutions’ exposure (including that of the Bank Group) is very modest and there are only a few bilateral and even fewer non-governmental agencies engaged, mainly in technical assistance. Consequently, conventional donor or development partner coordination and the Bank’s role are not major issues and, except for the United Nations Country Team coordinated by UNDP in which the Bank participates, there is no formal donor-government coordinating body or framework. Annex 4 summarizes key development partner activities by sector and thematic area.

77. **Meanwhile, Uzbekistan’s outreach to new and re-emerging development and trade partners in recent years has produced results.** For example, investments in industry and infrastructure by China, Korea, and Russia among others have become important factors in the government’s growth and development strategy. Moreover, the effectiveness and especially the fiscal impact of these investments in terms of medium- and longer-term operating and maintenance costs will need increasingly to be taken into account. In this latter connection, the Bank continues to work closely with the IMF on issues related to macroeconomic stability and economic management. At the same time, the IMF continues to provide technical assistance on improving the quality of national statistics and data transparency.

F. Monitoring and Evaluation

78. **Expected outcomes of the CPS are expressed in the attached results framework attached at Annex 1.** Based on discussions with the government and consultations with other stakeholders, it is organized around the CPS' four strategic objectives as well as the governance cross-cutting thematic result area. These objectives are then disaggregated into fourteen specific outcomes that the Bank Group expects to influence through the CPS as well as a larger set of intermediate outcomes or milestones that will be used to track progress periodically. The framework also identifies the CPS lending, advisory and analytical, and technical assistance interventions that are intended to contribute towards the achievement of CPS outcomes.

79. **While the results framework is designed to monitor progress and measure outcomes, its application is intended to be flexible.** It provides an initial sense of strategic direction for Bank Group assistance, but should be thought of as being open for change if evolving government priorities or external developments so warrant. Similarly, the mapping of planned financial and analytical activities by strategic theme (Annex 4) is intended to be flexible, especially for the outer years. For example, the detailed scope of activities related to the planned joint strategy report and ongoing poverty monitoring will be determined annually in consultation with the government. Overall monitoring will be annual: for macroeconomic and related outcomes, data will be obtained from the key economic ministries; for sectoral outcomes, through project supervision missions. These data will feed into a CPS Progress Report scheduled for FY14 and a CPS Completion Report scheduled for FY15.

IV. MANAGING RISKS

80. **The CPS entails risks to its implementation which will need to be mitigated and/or carefully managed.** Consistent with past experience, the proposed approach, based on proactive risk management, includes three elements: warning signals—to detect problems at the earliest possible stage; initial responses—to mitigate their immediate impact; and risk reduction measures—to gradually reduce their likelihood and potential impact over time.

A. Country Risks

81. **While the country's economic, political and social environment is currently stable, CPS implementation could be affected by a combination of factors.** Regionally, these include possibly: deteriorating security conditions due to the situation in Afghanistan, and increasing tensions between Uzbekistan and its neighbors over regional issues—especially the management and use of trans-boundary energy and water resources. Several Bank Group activities, especially its Central Asia Energy and Water Development Program (CAEWDP), as well as focused efforts on transparency and sharing of information about the ongoing assessment studies for the proposed Rogun hydropower project, are intended to help mitigate this risk. Domestically, they include possible economic and social instability due *inter alia* to continued levels of inequality—already a stated government concern—exacerbated by weak public accountability and by civil society's limited participation in economic and social policy dialogue. These domestic risks will be monitored continuously, as well as in the context of the next nation-wide elections. Since these risks are in areas beyond the Bank Group's mandate, staff will liaise with key bilateral agencies as well as the UN Specialized Agencies to monitor political and security developments, and to assess their possible impact. The initial response to any country-wide deterioration of stability would be incremental, targeted scaling-down

of activities. The initial response to any localized deterioration would be suspension of activities in that locality.

B. External Shocks

82. **Although Uzbekistan’s economy proved more resilient than most others during the 2008-09 global recession, it remains vulnerable to external shocks affecting commodity prices and remittances.** The Bank Group will therefore continue to monitor regional economic developments and, in the event of adverse events, be prepared to adjust the scope and focus of the program as needed. In addition, the government’s agenda to increase competitiveness and promote increased productivity and diversification—as well as CPS program support in these areas—addresses this risk. The Bank Group will also monitor the country’s vulnerability to national disasters, given its location in a relatively high risk area according to recent assessments.

C. Risks to World Bank Group

83. **The main risk to CPS implementation is the significant political commitment required to confront bottlenecks currently blocking the efficient functioning of the economy and private sector development.** If this risk materialized, it would have negative implications for planned CPS outcomes in these areas, including IFC’s ability to carry out direct investment in the private sector and, more generally, **for planned CPS outcomes in these areas.** In addition to working closely with other development partners and stakeholders to continuously assess policy reforms supported under specific projects, the Bank Group will also closely monitor CPS implementation. In case of adverse developments in overall policies, projects, or reforms, the Bank will adjust its engagement, for example by placing more emphasis on non-lending services in areas where reforms may have stalled. These mitigation measures could include the provision of hands-on support to address capacity issues through (*e.g.*) technical assistance, if requested, as well as maintaining policy dialogue with the authorities.

84. **A second risk relates to the lack of detailed and reliable economic, financial and social data.** This impedes the assessment of economic performance and social outcomes, hinders the preparation of economic projections, and undermines the credibility, relevance, and timeliness of Bank Group policy advice. Specifically, the proposed Uzbekistan Vision 2030 exercise as well as the analytical work needed to underpin the lending program will not be possible without better access to standard economic datasets (*e.g.* disaggregated national accounts, fiscal and monetary accounts, investments, *etc.*), improved information about government policies, and raw data on living standards (*e.g.* poverty, household budget surveys). In partnership with other development partners and particularly with the IMF, Bank Group staff will continue to work with the authorities on strengthening statistical institutions and on information disclosure, including on publication of data in the GFS and IFS in line with the government’s commitments. Specifically, they will closely monitor implementation of COM Resolution 2629 of April 4, 2011, which authorized the initiation of preparatory work to publish economic data in the IMF’s databases (*cf.* Box 1).

85. **A third fiduciary and governance risk relates to implementation delays and the use of Bank Group resources.** This includes the potential for mis-procurement as a result of the authorities’ price verification process. The Bank Group will continue to closely monitor fiduciary aspects of project implementation through regular reviews and external audits. It will also keep track of delays due to the authorities’ project *expertise* and price verification system. Its response in the event of continuing systemic delays in procurement will be to adjust the scope of its assistance program until a resolution is reached. As for risk reduction, the Bank Group will continue its support

for government efforts to improve governance and, in particular, to strengthen procurement and financial management capacity under the CPS' second result area. Dialogue between MFERIT, the Ministry of Economy, and the Bank will be maintained on the issue of project *expertise* price verification. In addition, the CPS will continue to identify and support demand-side governance interventions (as part of the proposed lending activities) to promote accountability to citizens.

Annex 1: Results Framework for the Uzbekistan CPS FY2012-2015

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
STRATEGIC THEME I. IMPROVING EFFICIENCY OF INFRASTRUCTURE				
1.1 Sustainable infrastructure development				
<p><i>Improvement of energy efficiency</i></p> <p><i>Improved environmental management</i></p> <p><i>Private sector development, including PPP</i></p> <p><i>Improvement of transport efficiency and introduction of sustainable management</i></p>	<ul style="list-style-type: none"> - Energy: low quality of electricity supply; high energy usage per unit of GDP productivity; high losses in supply chain; low share of renewable in energy portfolio - Lack of private investment - Double-landlocked nature of Uzbekistan affects its competitiveness - Transport: high cost of transport; supply side constraints; increasing ecological footprint; low safety standards of operations and infrastructure 	<p>Improved energy sector efficiency:</p> <ul style="list-style-type: none"> - Reduced duration of outages in South West Uzbekistan from 92 hours per year to 48 hours per year - Agreement on priority issues in power sector and strategic plan to deal with them adopted - Electricity constraint to firms' ability to operate competitively have been significantly reduced (follow-up to 2008 firm-level survey (baseline)) <p>Development of infrastructure PPPs:</p> <ul style="list-style-type: none"> - Implementation of at least one pilot PPP project the country <p>Sustainable transport:</p> <ul style="list-style-type: none"> - Increased transport efficiency 	<ul style="list-style-type: none"> - Initial assessment on electricity market integration with South Asia completed and disseminated - Initial assessment on transport sector and its impact on safety and the environment completed and disseminated - Knowledge sharing on transport international good practice (e.g., asset management, construction standards, concessions) 	<p>SPN: Enterprises Energy Efficiency (UZEF), Talimarjan transmission project</p> <p>New IBRD: Advanced electric metering project, Electricity Distribution, Urban Integrated project, UZEEF II, Transport project</p> <p>IDA/IBRD AAA: Energy Sector strategy, Regional power market assessment (UAP), Transport Assessment</p> <p>TFs: Cities Alliance Catalytic Fund, Transport and Logistics in Central Asia (Trade Facilitation Facility)</p> <p>IFC AS: structuring of first pilot PPP transactions</p> <p>IFC INV: PPP projects</p> <p>Key Partners: ADB, JICA, IsDB, CAREC, IWMI</p>

¹ SPN: Supervision of IDA ongoing operations, New IDA: New IDA financing, New IBRD: New IBRD financing, IDA/IBRD AAA: IDA/IBRD Analytical and Advisory Activities; TFs: IDA administered Trust Funds; IFC AS: IFC Advisory services, IFC INV: Potential IFC investment (subject to demand by partner investors)

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
		<ul style="list-style-type: none"> - Minimum ecological footprint of public and private transport - Increased safety of transport operations 		
1.2 Improve water management and climate change preparedness				
<i>Improved water use</i>	<ul style="list-style-type: none"> - Inefficient use of water resources for irrigation - Inadequate meteorological, climate, and hydrological information for decision making 	<p>Improved water resources management:</p> <ul style="list-style-type: none"> - Area of irrigated land with adequate water supply is increased by 40,000 ha\ - Area of irrigated land with adequate drainage is increased by 30,000 ha <p>Disaster- and climate change-related risks reduced:</p> <ul style="list-style-type: none"> - Improved accuracy of weather and seasonal river flow forecasts; up to 90% accurate by 2016. 	<ul style="list-style-type: none"> - Technical and financial and institutional support is provided to 62 Water User associations in seven project districts - Procedures on emergency situations warnings at regional levels adopted - Increasing data received/sent by each NMHS daily up to 600Mb/70Mb - Improved use of forecasts by users including agriculture, water resources, transport, and disaster risk reduction 	<p>SPN: Central Asia Hydromet Project, Ferghana Valley Water Resources Management Project, RESP II, South Karakalpakstan Drainage New IDA: RESP II AF IDA/IBRD AAA: Water Utility Pricing Policy Note Key Partners: EC, GTZ, KfW, Japan, JICA</p>
STRATEGIC THEME II. ENHANCE COMPETITIVENESS OF THE ECONOMY				
2.1. Strengthened institutions and macroeconomic environment				
<i>Better institutions through improved macroeconomic management and more effective and</i>	<ul style="list-style-type: none"> - Restricted availability of key economic, financial, and social data - Key economic data does not comply with 	<ul style="list-style-type: none"> - Data transparency and data quality improved - Key economic data is in compliance with the generally 	<ul style="list-style-type: none"> - Key economic and social data including CPI, National Accounts and fiscal accounts are published in internationally accepted statistical periodicals 	<p>IDA/IBRD AAA: Strategy Report "Uzbekistan Vision 2030", Macroeconomic Policy TA, CPIA-driven Policy Dialog TA, PEFA assessment TA, Procurement TA,</p>

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
<i>transparent fiscal/budget policy</i>	<p>the generally accepted methodology</p> <ul style="list-style-type: none"> - Economic and social development Strategy of Uzbekistan is not articulated in a publicly available document - High level of informality and state overregulation - Fiscal and budget data is not publicly available - Public procurement is inefficient 	<p>accepted methodology</p> <ul style="list-style-type: none"> - Develop Uzbekistan Vision 2030 based on analytical underpinnings using lessons from international experience - Efficiency of public resource mobilization improved - Improved transparency and public accountability in the public finances through <ul style="list-style-type: none"> - Improved alignment between national priorities and budgetary allocations - Increased Treasury coverage - Improved Public Procurement 	<ul style="list-style-type: none"> - Regular and to the extent possible joint GOU/WBG economic research is undertaken to inform Uzbekistan’s Medium-term economic and social development strategy - Tax risk assessment is developed and applied in tax administration - PEFA assessment conducted in 2012 and 2015 and PEFA scores for Comprehensiveness and Transparency (P6, P7), Policy-Based budgeting (P11 and P12), procurement (P19) improved in 2015 compared to 2012 - Coverage of single Treasury account expanded to the FRD - Procurement law is adopted, small and private businesses access to public procurement improved 	<p>ROSC in international accounting and auditing TA</p>
2.2 Accelerate market reforms through enhanced competitiveness in industrial sector				
<i>Enhanced Industrial Competitiveness</i>	<ul style="list-style-type: none"> - Lack of industrial competitiveness - Weak capacity of institutions supporting 	<p>Stronger export competitiveness and productivity growth:</p> <ul style="list-style-type: none"> - Adoption of new instruments to support investment in strategic industries aligned with 	<ul style="list-style-type: none"> - Assessment of the constraints limiting export competitiveness and productivity growth in strategic industries through Value Chain Analysis. 	<p>IDA/IBRD AAA: Industrial competitiveness policy notes</p> <p>IFC INV: Direct financing for the real</p>

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
	industrial competitiveness and development	international good practices - Increased ICT usage in firms	- Agreement on Industrial competitiveness reports recommending reforms and new instruments to support strategic industries reached.	sectors of the economy TFs: Korean Trust Fund ICT4D Key Partners: Korea
STRATEGIC THEME III. DIVERSIFICATION				
3.1 Strengthen the foundations for private-led diversification				
<i>Improved infrastructure and institutions for enterprise sector development</i>	<ul style="list-style-type: none"> - Restrictive business environment hinders modernization, economic growth FDI and export competitiveness - Outdated quality infrastructure (metrology, standards, technical regulations, quality certification) limits exports of high value-added products - Limited ICT infrastructure and e-Government services 	Enhanced regulatory policy frameworks and institutional capacity for investment, private sector development and trade: <ul style="list-style-type: none"> - Improved business environment as measured by the Doing Business indicators - Legislation on standards, metrology and accreditation is aligned with minimum international guidelines - Adherence of Uzbekistan's accreditation system with international guidelines and membership in the Metre Convention as a Member State or an Associate of the General Conference on Weights and Measures 	<ul style="list-style-type: none"> - Diagnostic assessments in priority Doing Business areas, including recommendations about legal, regulatory and technical areas for reform. - Supporting implementation of reforms and reorganization of the national quality infrastructure institutions, including upgrading of services used by firms in strategic industries - Development and support to the implementation of an action plan for ICT development aligned with the e-Government master plan 	IDA/IBRD AAA: Business Environment TA, Financial Sector TA, FSD Dialogue with CBU, Innovation and Economic Diversification New IDA: Private sector competitiveness enhancement TFs: Korean Trust Fund ICT4D; South-South Experience Exchange Key Partners: DFID, IsDB, EBRD, USAID, GIZ
3.2 Diversification in the Agricultural Sector				
<i>Increase</i>	- Low agricultural	Increased investment and	- 15% of farmers in RESP	SPN: RESP II

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
<i>productivity of Agriculture</i>	productivity - Limited financial support available for investments in high growth sectors	employment in Agriculture sector: - Improved agricultural productivity in target areas as measured by yield of key products Baseline (ha/tons)-> Target (ha/tons) wheat 4.0 -> 5.04 cotton 2.00 -> 2.5 melon-gourds 11.8 -> 14.3 maize – 13.1 -> 15.7 orchards–apple 4.3 -> 4.5 vineyards – 4.1 -> 4.3 - 20% of PFI’s agriculture lending portfolio supports development of: (i) poultry; (ii) livestock (iii) fishery; and (iv) horticulture sectors - Fruits and vegetable production acreages increased by 200,000 ha.	II project areas have adopted best management practices on their farms - Improved capacity of the PFIs staff by training 200 lending officers in agricultural investment lending - Reduced post-harvest losses by 20% through the establishment of cold chain facilities & services - Added values to the processed products through upgraded sorting, grading, processing and packing equipment	New IDA: AF to RESP II, Horticultural development project IDA/IBRD AAA: Agriculture competitiveness strategy, Horticulture strategy
STRATEGIC OBJECTIVE IV: IMPROVING ACCESS TO SOCIAL SERVICES				
4.1 Strengthen quality of education and health services				
<i>Improve the quality of primary and basic secondary education while maintaining universal access [National MDG2, Target 2]</i>	- Poor quality and relevance of education - Low participation of communities in policy/decision making processes having to do with schooling	Improved access to quality basic education services: - 100% of project preschools and Grades 1-9 grades have and are using core set of teaching and learning materials [as measured through an evaluation]	- Provision of learning materials and school based teacher training to preschools, primary and secondary schools in project schools - Implementation of at least one national student	SPN: Health III, Basic Education II New IDA: Early childhood development Project IDA/IBRD AAA: Health Strategy TA Key Partners: ADB, UNDP, UNICEF, JICA, BC, WHO, UNICEF,

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
	<ul style="list-style-type: none"> - Low demand for pre-school education - Low pre-school enrollment in rural areas 	<ul style="list-style-type: none"> - 50% of teachers at sampled project schools where learning materials acquired under the project are used effectively in classrooms - Implementation and dissemination of results of national student assessment through the national media and newspapers 	<p>assessment of student learning</p> <ul style="list-style-type: none"> - Launch of communication campaign aimed at increasing demand for pre schooling in the rural areas 	
<p><i>Improve access to quality health care at the primary level and at secondary health care facilities</i></p>	<p>Poor quality of secondary care services:</p> <ul style="list-style-type: none"> - Poor infrastructure and outdated diagnostic and medical equipment at the rayon level secondary facilities - Inefficient resource allocation to rayon hospitals based on input-based norms (bed and staff numbers), reflecting nominal capacity and not the level of services provided - Lack of quality preventive and curative services against NCDs 	<p>Improved access to health Services:</p> <ul style="list-style-type: none"> - Refurbished rayon level project health facilities with modern biomedical equipment - Increased proportion of hospitals following at least 20 NCD treatment standards (Target 100% hospitals of intervention areas) - outcome based hospital financing piloted in Fergana oblast 	<ul style="list-style-type: none"> - At least 50 Hospitals equipped with medical and waste management equipment - 3670 Urban polyclinics' doctors receiving training under the 10-month training GP program - Health personnel at PHCs (6000 doctors and 57000 nurses) receiving training under continuous professional education - 50% of targeted population with access to a basic package of health - 2 National Health Accounts developed and published 	
<p>4.2 Water Supply and Sanitation (WSS) and Integrated Urban Development</p>				

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
<i>Increased access to water and sanitation</i>	<ul style="list-style-type: none"> - Inadequate access to safe water and sanitation services in urban and rural areas - Low capacity of sector institutions - Inefficient WSS sector financing 	<p>Increased household access to safe drinking water and sanitation services in urban and rural areas:</p> <ul style="list-style-type: none"> - Number of households benefitting from improved WSS service and/or from improved municipal infrastructure service (46,680 households with metered WS in Syr Darya region) - 2,000 & 4,000 new households connected to public sewerage system in Bukhara & Samarkand respectively; - 280,100 people with access to improved water supply in Sir Darya region - Improved capacity of targeted WSS sector and local government institutions 	<ul style="list-style-type: none"> - Number of trained sector personal (sector administration, utility and municipal management and staff) by 2013: <ul style="list-style-type: none"> - 10% of BVK & SRVK staff; - 80% of Sir Darya VK staff - Enactment of action plan derived from selected Policy Note recommendations - Municipal Sector Strategy Note finalized, disseminated and discussed at a workshop in FY13. Submitted to Cabinet of Ministers for comments and endorsement. 	<p>SPN: Bukhara & Samarkand Sewerage, Sir Darya Water Supply New IDA: Water Sanitation Sector Investment Project 1 & 2 New IBRD: Integrated Urban Project IDA/IBRD AAA: Water Supply and Sanitation Utility Pricing Policy Note TFs: WPP, Cities Alliance, Key Partners: SECO, EC, GIZ, KfW, JICA</p>
4.3 Promoting social inclusion				
<i>Reduce Poverty Rate</i>	<ul style="list-style-type: none"> - Weak links between policy analysis and policymaking Low targeting efficiency of the existing Social Safety Net - Antiquated processes used by karallas in distributing SSN leading 	<p>Better targeting of social assistance:</p> <ul style="list-style-type: none"> - Strengthening capacity of government think-tank(s) for policy research and dissemination - Developing a Proxy Means Testing (PMT) mechanism for targeting the poor - Developing electronic 	<ul style="list-style-type: none"> - Joint policy notes on the outcomes Institute for Social Research - Analytical underpinning for PMT developed and ready for piloting - Design of electronic registry is developed and ready for piloting 	<p>SPN: New IDA: Social Safety Net strengthening Credit IDA/IBRD AAA: Social Policy strengthening TA TFs: Key Partners: UNDP, UNICEF</p>

National Priorities	Constraints on which the CPS expects to focus	Outcomes to Which the CPS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners ¹
	to loss of productivity	registry of SSN beneficiaries		
CROSS THEMATIC AREA: GOVERNANCE				
<i>Increase the efficiency of Public Financial Management</i>	<ul style="list-style-type: none"> - Limited access to economic & financial information, and accounting and reporting do not sufficiently ensure transparency of financial information - Legal & institutional framework for internal and external audit below international benchmarks - External audit capacity not adequate for carrying out effective financial audits, and use of international standards doubtful 	<p>Enhanced regulatory policy frameworks and institutional capacity for PFM:</p> <ul style="list-style-type: none"> - Coordinated Public Financial Management reform process that is informed by good international practice and benchmarking - Formal adoption of Public Sector Accounting Strategy and its phased implementation, and based on instructions for application of IPSAS and supported with training - Internal control and audit framework developed under the WB IDF grant implemented 	<ul style="list-style-type: none"> - Improved accounting and reporting system - Increased financial data disclosure - Functioning external audit, with adequate capacity in numbers and skills and using international standards - Improved internal control with effective internal audit functions across key budget organizations - Legal and institutional structures for external audit and internal audit established 	<p>IDA/IBRD AAA: PEFA Assessment, data sharing TA IDA/IBRD LEN/SPN: entire portfolio TFs: SAFE trust fund, Russian PFM trust fund, IDF grant Key Partners: ADB, Russia, SECO</p>

Annex 2. IBRD/IDA activities for FY12-FY15 (by Strategic Theme)

[TOTAL: \$1,350 million—IBRD: \$710 million¹ - IDA16: \$540 million – IDA17: \$100 million²]

(1) BY STRATEGIC THEME	IBRD	IDA	TOTAL
IMPROVING INFRASTRUCTURE EFFICIENCY³			
Advanced Electricity Metering	110		
Enterprise Energy Efficiency II	100		
Electricity Distribution	100		
Urban Integrated Development Project Unidentified	100		
Transport Unidentified	100		
Horticulture Pilot Project	100		
IBRD Project Unidentified (Outer years)	<u>100</u>		
	710		<u>710</u>
INCREASING SOCIAL EQUITY/INCLUSION⁴			
Alat-Karakul Water Supply		50	
Water Sanitation Sector Investment Project 1		50	
Early Childhood Development		50	
RESPII—Additional Financing		40	
South Karakalpakstan Drainage Project		150	
Water Sanitation Sector Investment Project 2		100	
IDA Project Unidentified (IDA17 ¹)		<u>100</u>	
		540	<u>540</u>
ENHANCING COMPETITIVENESS			
Microfinance/credit access		<u>100</u>	<u>100</u>
	710	640	1,350
(2) BY FISCAL YEAR	IBRD	IDA	TOTAL
FY12			
Advanced Electricity Metering	110		
Alat-Karakul Water Supply		50	
RESPII Additional Finance		40	
	110	90	200
FY13			
Enterprise Energy Efficiency II	100		
South Karakalpakstan Drainage Project		150	
Water Sanitation Sector Investment I		50	
	100	200	300
FY14			
Microfinance/credit access		100	
Early Childhood Development		50	
Water Sanitation Sector Investment Project 2		100	
Horticulture Pilot Project	100		
Electricity Distribution	100		
	200	250	450
FY15			
Urban Integrated Development Project	100		
Transport Unidentified	100		
IBRD Project Unidentified (Outer years)	100		
IDA Project Unidentified (IDA17 ¹)		100	
	300	100	400
	710	640	1,350

¹ Overall lending amounts will depend on the IBRD's lending capacity and demand by other borrowers as well as Government demand and performance in the course of the CPS period.

² Subject to Uzbekistan's continuing IDA eligibility in FY17

³ Energy, Transport, Drainage/Irrigation

⁴ Education, Health, Municipal Services

Annex 3. Mapping of CPS Activities by Strategic Themes

Total	IDA16	IDA17	IBRD
\$1350 m	\$540 m	\$100 m	\$710 m

I. IMPROVING INFRASTRUCTURE

Sustainable infrastructure development

Thematic focus: (i) investment financing; (ii) scaling up of ongoing successful pilot activities (Energy efficiency); (iii) support to reforms (esp. sector management, PPP)

Instruments: (i) sectoral investment loans; (ii) continuous TA throughout the period; (ii) sector reports

<u>Proposed activities</u>					
Enterprises Energy Efficiency (UZEF)	IDA SIL	\$28 m		FY10-FY15	Ongoing project
Talimarjan transmission project	IBRD SIL	\$110 m		FY11-FY16	Ongoing project
Advanced electric metering project	IBRD SIL	\$110m		FY12-FY17	Pipeline
Electricity Distribution	IBRD SIL	\$100 m		FY14	Pipeline
UZEEF II	IBRD SIL	\$100 m		FY13	Pipeline
Transport Unidentified	IBRD SIL	\$100 m		FY15	Pipeline
Urban Integrated Development Project	IBRD SIL	\$100 m		FY15	Pipeline
UAP-ES Assessment (Aka UAP 1,000)	TA			FY12-FY13	Continuation of existing work
Energy Sector strategy	ESW			FY12	
Transport Assessment	ESW			FY13	

Improving water management and climate change preparedness

Thematic focus: (i) continued investment in water and sanitation; (ii) support to sectoral reforms (esp. pricing)

Instruments: sectoral investment loans

<u>Proposed activities</u>					
Hydromet Regional Project	IDA Reg	\$0			Ongoing project
Ferghana Valley Water Resources Phase-I	IDA SIL	\$66 m		FY10-FY17	Ongoing project
RESP II	IDA SIL	\$68 m			Ongoing Project
South Karakalpakstan Drainage	IBRD SIL	\$150 m		FY13	Pipeline
Aral Sea Initiative	GEF	\$50 m		FY15	Pipeline
Water Resource Management Strategy	ESW			FY12-FY13	

II. ENHANCE COMPETITIVENESS OF THE ECONOMY

Strengthened institutions and macro-economic environment and promoting market efficiency

Thematic focus: Maintain macroeconomic stability over the medium term

Instruments: (i) Joint Strategy report "Uzbek Vision 2030" ; (ii) continuous dialogue during the period

<u>Proposed activities</u>	Data sharing and transparency	TA	Continuous	Building on dialogue in previous period
	Macro-economic monitoring	TA	Continuous	
	Joint Strategy report "Uzbek Vision 2030"	ESW	FY12-FY13	Joint with MoE and Chamber Commerce & Industry/ Institute of Forecasting

Promoting market efficiency

Thematic focus: Increased focus on specific sectors (including petrochemicals and textile)

Instruments: analytical pieces on specific topics

<u>Proposed activities:</u>	Industrialization policy note	ESW	One a year	Detailed look at key sector/one sector a year
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III. DIVERSIFICATION

Strengthen the foundations for private sector development

Thematic focus: (i) continued support to overall business environment reforms; (ii) support to reform of the financial sector

Instruments: (i) Technical activities on investment climate and financial sector (2/3 years); (ii) focused financial intermediation / investment projects;

<u>Proposed activities</u>	Microfinance/Credit Access	IDA LEN \$100 m	FY14	Pipeline
	Doing Business TA	TA	Continuous	
	Innovation and growth TA	TA	Continuous	Continuation of existing PREM work
	Financial sector TA	TA	Continuous	To support the reforms through the period as needed

Diversification of the agriculture sector

Thematic focus: (i) financing and micro-finance for alternative agriculture; (ii) development of the horticulture sector

Instruments: (i) ongoing projects; (ii) additional financing; (iii) one time reports on specific issue ; (iv) sector strategy report

<u>Proposed activities</u>	RESP II	IDA SIL \$68 m	ends March 2015	Ongoing Project
	AF for RESPII	IDA AF \$40 m	FY12	Pipeline / Credit Line top-up
	Horticulture strategy	ESW	FY12	Follow-up on earlier work on Agriculture sector diversification
	National Infrastructure Quality	ESW	FY13	

IV. INCREASING SOCIAL EQUITY/INCLUSION

Strengthen quality of education and health services

Thematic focus: (i) Improving Basic Education and Early Childhood Development quality; (ii) Improving second-level care

Instruments: (i) ongoing projects; (ii) investment financing;

<u>Proposed activities</u>	Health III	IDA SIL	\$93 m	FY11	Ongoing project
	Basic Education II	IDA SPN	\$28 m	FY12-FY15	Ongoing project
	Early childhood development Project	IDA SIL	\$50 m	FY14	Pipeline

Water Supply and Sanitation

Thematic focus: (i) Improving water supply and sanitation; (ii) Improving related public policy

Instruments: (i) ongoing projects; (ii) investment financing (APL); (iii) policy note

<u>Proposed activities</u>	Bukhara and Samarkand Sewerage	IDA SIL	\$55 m	FY09-FY16	Ongoing project
	Syr Darya Water Supply	IDA SIL	\$100 m	FY11-FY17	Ongoing project
	Alat-Karakul Water Supply Project	IDA SIL	\$50 m	FY12	Pipeline
	Water Sanitation Sector Investment Project 1	IDA SIL	\$50 m	FY13	Pipeline
	Water Sanitation Sector Investment Project 2	IDA SIL	\$100 m	FY14	Pipeline
	Water Utility Pricing Policy Note	ESW		FY12	

Promoting social inclusion

Thematic focus: (i) scaling up welfare improvement monitoring activities; (ii) support to social safety nets reform;

Instruments: (i) continuous TA throughout the period

<u>Proposed activities</u>	Poverty monitoring/ Analysis support	TA		Continuous	Strengthen capacity for monitoring and budgeting
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V. GOVERNANCE CROSS-THEMATIC AREA

Improve the effectiveness and efficiency of public finance management

Thematic focus: Improve procurement and financial systems

Instruments: PE and Financial Accountability (PEFA)

<u>Proposed activities</u>	PE and Financial Accountability (PEFA)	TA	FY12	Follow-up to CIFA
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Annex 4. Development Partner Coordination

Sector	Donor	Amount in currency	Instrument*	Loan/Grant	Period					
					before	12	13	14	15	after
Macroeconomic Analysis	WB	n.a.	TA	Grant	x	x	x	x	x	x
	GIZ	n.a.	TA	Grant	x	x				
	UNDP	n.a.	TA	Grant	x	x	x			
	IMF	n.a.	TA	Grant	x	x				
Public finance management										
Revenue/fiscal administration	UNDP	n.a.	TA	Grant	x	x				
Budget management	UNDP	n.a.	TA	Grant	x	x				
Expenditure management	ADB	\$1.0 M	TA	Grant	x	x				
	UNDP	n.a.	TA	Grant	x	x				
Public expenditure review	SECO	CHF 2.0 M	TA	Grant	x	x				
	EU	n.a.	TA	Grant	x	x				
Statistics	IMF	n.a.	TA	Grant	x					
Employment and entrepreneurship	ADB	\$0.1 M	TA	Grant	x	x				
Microfinance	ADB	\$100 M	Proj	Loan		x	x	x		
	EU	n.a.	TA	Grant	x	x				
	KfW	Eur 19.8 M	Proj	Loan	x	x	x			
	UNDP	n.a.	TA	Grant	x	x	x			
Diversification/Industrialization	WB	n.a.	TA	Grant	x	x	x	x		
Private sector Development	ADB	\$0.6 M	TA	Grant	x	x				
	EU	n.a.	TA	Grant	x	x				
	GIZ	n.a.	TA	Grant	x	x				
	SECO	CHF 0.7	TA	Grant	x	x				
	JETRO	JPY10 M	TA	Grant	x	x				
	OSCE	Eur 0.6 M	TA	Grant	x	x				
Agriculture/Fisheries	ADB	\$250 M	Proj	Loan		x	x	x		
	EU	n.a.	TA	Grant	x	x				
	GIZ	n.a.	TA	Grant	x	x				
	USAID	\$25 M	Proj	Grant	x	x				
	China	n.a.	TA	Grant	x	x				
OSCE	n.a.	TA	Grant	x	x					
Irrigation and Drainage	SECO (Swiss)	\$6.5 M	TA	Grant	x	x				
	UNDP	\$4.0 M	TA	Grant	x	x				
	SECO	CHF3.0 M	TA	Grant	x	x	x			
	GIZ	n.a.	TA	Grant	x	x				
	JICA	n.a.	TA	Grant	x	x				
	KOICA	\$2.5 M	TA	Grant	x					
	China	n.a.	TA	Grant	x					
Transport	ADB	\$900 M	Proj	loan		x	x	x		
	IsDB	\$2.4 M	TA	Grant	x	x				
	EU	n.a.	TA	Grant	x	x				
	JICA	\$10 M	Proj	Loan	x					
	China	n.a.	TA	Grant	x	x				
	OSCE	n.a.	TA	Grant	x	x				
Energy	ADB	\$1.2 B	Proj	Loan		x	x	x		
	EU	n.a.	TA	Grant	x	x				
	JICA	JPY27.2 B	Proj	Loan	x	x	x	x		
	KOICA	\$2.5 M	Proj	Grant	x	x				
	USAID	n.a.	TA	Grant	x	x				
Water and sanitation	ADB	\$450 M	Proj	Loan		x	x	x		
	ADB	\$0.2 M	TA	Grant	x	x	x			
	EU	n.a.	TA	Grant						
	UNDP	n.a.	TA	Grant						
	SECO	CHF 6.5 M	TA	Grant	x	x				
	JICA	n.a.	TA	Grant	x	x				
	KOICA	\$5.3 M	TA	Grant	x					

Annex 4. Development Partner Coordination (Continued)

Habitat/Housing	ADB	\$100 M	Proj	Loan		x	x	x			
	KfW	n.a.	Proj	Loan	x	x	x				
	KOICA	\$2.5 M	Proj	Grant	x						
Environment	EU	n.a.	TA	Grant	x						
	GIZ	n.a.	TA	Grant							
	UNDP	n.a.	TA	Grant							
	JICA	\$7.5 M	Proj	Loan	x	x	x				
	OSCE	n.a.	TA	Grant	x	x					
	GEF	\$5.3 M	TA	Grant	x	x					
Education	ADB	\$0.4 B	Proj	Loan							
	IsDB	\$190 M	Proj	Loan		x	x	x			
	EU	n.a.	TA	Grant							
	KfW	Eur 20 M	Proj	Loan	x	x	x				
	UNICEF	\$20 M	TA	Grant	x	x	x	x	x		
	JICA	\$5 M	TA	Grant	x	x					
	KOICA	\$7 M	Proj	Grant	x						
	China	n.a.	Proj	Loan	x	x					
Health /others social sectors	EU	n.a.	TA	Grant	x	x					
	GIZ	n.a.	TA	Grant	x	x					
	KfW	\$8.0 M	Proj	Loan	x	x	x				
	UNICEF	\$42.3 M	TA	Grant	x	x	x	x	x		
	WHO	\$2.1 M	TA	Grant	x	x					
	UNFPA	\$8.9 M	TA	Grant	x	x	x	x	x	x	
	JICA	\$13 M	Proj	Grant	x						
	KOICA	\$6.5 M	TA	Grant	x						
	USAID	n.a.	TA	Grant	x	x					
	China	n.a.	Proj	Loan	x	x					
Governance WIS	ADB	\$0.4 M	TA	Grant	x	x					
	WB	n.a.	TA	Grant	x	x					
Audit/Procurment	UNDP	n.a.	TA	Grant	x	x					
	WB	n.a.	TA	Grant	x	x					
Fight against corruption	UNODC	n.a.	TA	Grant	x	x	x				
	OSCE	Eur 0.1 M	TA	Grant	x	x					
Public sector capacity building	IsDB	\$0.5 M	TA	Grant	x	x					
	EU	n.a.	TA	Grant	x	x					
	WB	\$0.06	TA	Grant	x						
	UNICEF	n.a.	TA	Grant	x	x	x	x	x		
	UNFPA	\$1.10	TA	Grant	x	x	x	x			
	KOICA	n.a.	TA	Grant	x	x					
	USAID	n.a.	TA	Grant	x	x	x				
	OSCE	n.a.	TA	Grant	x	x					
Civil society	IsDB	n.a.	TA	Grant	x	x					
	EU	n.a.	TA	Grant	x	x					
	KOICA	\$0.1 M	TA	Grant	x						
	USAID	n.a.	TA	Grant	x	x					
Gender	ADB	n.a.	TA	Grant	x	x					
	UNFPA	n.a.	TA	Grant	x	x	x	x	x		

(*) Legend :

Proj: classic project

BS: budget support

TBS: targeted budget support

TA: technical Assistance

M: million

B: billion

Amounts are indicative and exchange rates may vary.

Annex 5. CAS Completion Report (CASCR), FY08-11

I. Executive Summary

Background

CAS Program Performance

Bank Performance

II. Progress towards Uzbekistan's Development Goals

III. Highlights of CAS Program Performance

Pillar 1: Enabling Environment for Shared Growth

Pillar 2: Increasing Economic and Income Opportunities in Rural Areas

Pillar 3: Strengthening Human Development & Social Protection

Pillar 4: Managing Environmental and Disaster Risks and Global Goods Provision

CAS Program Results Rating

IV. WORLD BANK GROUP PERFORMANCE

CAS Design and Relevance

World Bank Group Performance Rating

V. KEY LESSONS AND SUGGESTIONS

Attachments:

I. Table 1: Summary of CAS Program Self-Evaluation

II. Table 2: Planned Lending and Actual Deliveries

III. Table 3: Planned Non-Lending Services and Actual Deliveries

I. Executive Summary

Background

i. The FY08-11 CAS marked the return to a standard assistance framework for Uzbekistan following the FY06-07 Interim Strategy Note (ISN) which, owing to concerns about development effectiveness and the country's governance, focused on technical assistance and minimal IDA lending for global public goods and social services. Reflecting slowly improving Bank-client relations and the need to calibrate different levels of activity to different degrees of government commitment, the CAS adopted a flexible, two-track approach, defined as: full engagement, *i.e.* lending, analytical and advisory services, and technical assistance, in policy areas and/or sectors of common agreement; and limited engagement, *i.e.* analytical and advisory services and/or technical assistance in areas where there was no, or incomplete consensus. The IDA15 allocation was expected to be about \$375-450 million over the three years FY09-11, similar to the allocation under IDA14 but significantly higher than the total \$55 million actually committed between FY04-07.

ii. Uzbekistan's economy withstood the global crisis relatively well—thanks to continued high demand for, and the prices of the country's commodity exports, the government's end-2008 fiscal stimulus, equivalent to 4 percent of GDP, and the financial sector's limited exposure to world markets—and the CAS program was thus little affected. While the number of operations approved was in line with expectations in mid-2008, the total \$533 million committed by end-FY11 was significantly higher. This was partly due to the addition of two new energy operations late in the period. The program of analytical and advisory activities and technical assistance was implemented largely as planned

CAS Program Performance

iii. The Completion Report rates the achievements of outcomes foreseen in the CAS as *moderately satisfactory*. First, compared to the mid-2000s, the quality and scope of the Bank's dialogue and interaction with the government on macro-related policies (except for poverty) has demonstrably improved. Moreover, a substantial program of continuing analytical and advisory activities—including a planned country economic memorandum focused on competitiveness issues—is in place for the next two years. On the other hand, the Bank's influence and role in Uzbekistan remain limited, the bar was set deliberately low, and the authorities' ostensibly renewed confidence in Bank economic analysis and policy advice has not yet translated into better access to key economic, financial and social data—nor more generally to improved governance and transparency. Second, although IFC's advisory services contributed to several regulatory improvements in the business environment, they could not be expected to overcome long-standing systemic constraints to private sector development. Third, the program achieved significant results on the ground in rural development and improved water resource management, but had little apparent influence on broader agricultural policy reforms or on poverty and regional disparity reduction goals. The human development program, on the other hand, in addition to project-specific results, also contributed to and supported implementation of small-scale, but important pragmatic reforms in education, health, and water supply and sanitation.

Bank Performance

iv. **CAS Design.** Overall, the CAS was relevant and well aligned with the country's stated development priorities, although the links between broad-based strategic country goals and CAS-specific outcomes were sometimes tenuous or unclear. CAS outcomes, eschewing controversial or sensitive policies or reforms, were realistic—in fact, based largely on already agreed project-specific objectives, most were relatively undemanding and clearly intended to ensure achievement. The quality of the results framework, however, was uneven, inconsistent, and unclear in several areas. The CAS identified five

critical risks to implementation, of which three—fiduciary, development effectiveness, and regional cooperation—are ongoing and likely to continue into the next FY12-15 CAS and beyond.

v. **CAS Implementation.** The flexible, dual track approach worked well, resulting *inter alia* in an almost doubling of the active portfolio—from six projects totaling \$266 million in FY08 to ten projects totaling \$633 million by end-FY11. Development impact, however, was modest, owing partly to the intentionally limited policy content of lending operations, partly to the client’s avoidance of sensitive areas for collaborative economic and sector work (e.g. agriculture, governance, poverty), and partly to the gradual pace and narrow scope of Uzbekistan’s structural reforms process. Moreover, despite the improved dialogue and closer relations, several long-standing operational and portfolio issues remain unresolved, such as procurement, especially contract registration, implementation delays, and project management.

vi. Against this background, including the CAS’ relatively modest, undemanding goals, the Completion Report rates the Bank’s performance in terms of both design and implementation as *moderately satisfactory*.

II. Progress towards Uzbekistan’s Development Goals

1. **Uzbekistan’s overall macroeconomic results for the FY08-11 CAS period were broadly in line with the goals established in its first Welfare Improvement Strategy (WIS), 2007-10.** With GDP growth exceeding 8percent in both 2009 and 2010 according to official data, its economy withstood the global economic crisis relatively well, the main impact being weaker demand for the country’s manufactured exports and a marked decline in migrant workers’ remittances—about 30 percent lower than their 2008 peak, when they were equivalent to 7 percent of GDP. Three factors together explain this outcome: *first*, the continued high world demand for, and prices of copper, cotton, gas, and gold, Uzbekistan’s principal commodity exports, which account for 80 percent of the total; *second*, the government’s end-2008 fiscal stimulus, equivalent to 4 percent of GDP, that included tax exemptions and reductions, increases in public sector wages, support to agriculture, commercial banks, and state-owned enterprises, and loans from the Fund for Reconstruction and Development (FRD); and *third*, the economy’s limited exposure to international financial markets. In addition, prudent economic management before, during, and after the global downturn helped maintain growth and stability. On the other hand, progress towards reducing the structural distortions inherent in Uzbekistan’s gradualist state-led development strategy—e.g. the restrictive trade régime, self-sufficiency, the underdeveloped financial sector, the difficult business environment, was limited. Moreover, despite some advances, governance, public accountability, and transparency remain major concerns as well.

2. **Progress towards the other country development goals supported by the CAS varied.** In particular, results for the main themes underlying the CAS program—private sector development, increased rural incomes, strengthened human development, and improved environmental and disaster risk management—were mixed and often unclear, owing at least partly to insufficient or poor quality data. Regarding private sector development, for example, while the authorities report an increase in the share of small- and medium-sized enterprises in GDP, from 42 percent in 2006 to 52 percent in 2010, there are no official data to indicate whether the broader private sector/GDP ratio improved proportionately¹. Moreover, some private sector development indicators turned negative: for example, Uzbekistan’s *relative* country ranking in Doing Business fell during the period—from 138/181 in 2009 to 150/183 in both 2010 and 2011—and its poor investment climate, specifically access to foreign exchange as well as local currency in cash, remains a major challenge². Thus, even though the government expects to finance

¹ According to Uzbekistan statistical conventions, the private sector and small- and medium-sized enterprises are synonymous. The private sector includes enterprises with less than majority private equity ownership.

² Uzbekistan’s absolute country-specific score, however, indicates modest progress over time—*cf.* paragraph 14 below.

up to two-thirds of its \$47.3 billion, five-year (2011-15) industrial modernization and infrastructure development program with foreign direct investment and/or external loans, there is scant evidence of any real improvement in the country's overall business environment since 2008.

3. **As for increased rural incomes and strengthened human development, project-specific indicators suggest continued progress in the delivery of essential social services—education, health, and water supply and sanitation.** However, there are no up-to-date reliable data available to verify the officially reported declines in poverty, nor to show, for example, whether improved agricultural yields, especially of cotton and wheat, are translating into increased farmers' incomes. Likewise, it is unclear whether the better access to safe water and the reductions in infant and maternal mortality recorded in IDA-financed project districts are being replicated elsewhere in the country. In fact, given the still slow pace of reform in agriculture—with the 'state order' for cotton at below market prices still firmly in place—and also in the public education and health systems, especially in rural areas, there is anecdotal evidence that unemployment and living standards have changed little during the period.

III. Highlights of CAS Program Performance

4. **The overall purpose of the CAS was to support implementation of Uzbekistan's first WIS, 2007-10.** The WIS, a comprehensive medium-term development framework, sought to maintain high rates of GDP growth and, in particular, to improve living standards, create a more competitive, diversified, and modern economy, enhance access to and the quality of public services, and reduce inter-regional disparities. Linked to these country objectives, the CAS' framework comprised four pillars: (a) an enabling environment for shared growth; (b) increased economic and income opportunities in rural areas; (c) strengthened human development and social protection through better service delivery; and (d) environmental and disaster risk management, and global goods provision.

5. **This Completion Report compares results achieved with the outcomes foreseen in the CAS, as updated or revised in the FY10 CAS Progress Report (CASPR)³.** It is based *inter alia* on: portfolio implementation performance reports; the last two Implementation Status and Results Reports (ISRs) and *aide memoires* of each active project and Implementation Completion Reports (ICRs) of two projects that closed during the CAS period; interviews with selected client counterparts; and self-assessments by the country team. Its initial findings informed the preparation of the FY12-15 Country Partnership Strategy (CPS).

Pillar 1: Enabling Environment for Shared Growth

6. The first pillar envisaged two broad areas of engagement, with outcomes linked to the country's overall growth, poverty reduction, and macroeconomic management goals, namely: (a) institutional support for WIS implementation, including promoting good governance; and (b) private sector development, business environment and investment climate. Activities in these areas were facilitated by a mix of advisory and analytical services, policy dialogue, and technical assistance.

7. **CAS support for WIS implementation focused on six pre-selected clusters of activity:** (a) macroeconomic policy formulation; (b) poverty analysis; (c) monitoring and evaluation; (d) public financial management reform; (e) budget transparency; and (f) governance. According to the country team's self-assessment, outcomes for macroeconomic policy formulation, budget transparency, and governance were achieved and those for monitoring and evaluation and for public financial management

³ Uzbekistan: Country Assistance Strategy, FY08-11, May 14, 2008 (Report No. 43385-UZ)

Uzbekistan: Country Assistance Strategy Progress Report, May 20, 2010 (Report No. 53764-UZ)

were partly achieved. There was little progress as regards poverty analysis, however. These results are discussed in more detail below.

8. **Macroeconomic policy formulation.** In addition to regular advice to decision makers, technical assistance was provided to the Ministry of Economy (MOE), the Institute for Macroeconomic Research (IFMR), and the Ministry of Finance (MOF) to strengthen these institutions' analytical and forecasting capacity through the use of new economic tools. Specific outputs included: an external debt management manual; an assessment of budget revenues; a review of the State Tax Committee's organizational structure; a guide for the publication of key economic data; a methodology for assessing the impact of external shocks such as the recent global crisis on Uzbekistan's economy, using a computable general equilibrium model (CGE) model, as well as mitigation measures and related policy dialogue; a survey of research and development institutions to assess the constraints to their upgrading and modernization; a methodology for assessing innovation potential in specific industrial sectors; and workshops and roundtables for preparation of a national strategy for innovation-based development.

9. **Budget transparency.** The increased frequency and expanded scope of MOF reporting during the period contributed to enhanced budget transparency and, indirectly, improved public finance management. Two specific results were achieved: (a) monthly and quarterly reports are now reconciled using the unified budget classification, allowing for comparison of approved and actual budgets; and (b) all extra-budgetary funds, except the Fund for Reconstruction and Development (FRD), are now incorporated into the treasury system. The treasury in turn introduced the new GFSM 2001-based budget classification for the 2011 budget cycle, albeit not yet in terms of published budget data.

10. **Governance.** Dialogue on governance and anti-corruption was initiated in the context of several anti-money laundering and counter-terrorism financing activities undertaken jointly with the UNODC. It was later broadened to include data transparency, banking system reforms and, more recently, industrial policies. Specific outcomes included: Uzbekistan's signature of the United Nations Convention against Corruption in August 2008; Uzbekistan's ratification of the OECD Istanbul Action Plan in March 2010; and the creation of a national anti-corruption strategy working group tasked with developing an action plan and assessing—jointly with OECD—the country's institutional capacity for combating corruption. Meanwhile, an assessment of the accountability, efficiency, and transparency of primary health care services was completed in mid-2009 as planned.

11. **Monitoring and evaluation.** A WIS monitoring and evaluation framework was developed and partially implemented, specifically the provision of hardware, software, and MoE staff training, including a September, 2008 study tour to Vietnam. In addition, a database of over 170 improved education and health indicators was prepared and integrated into the framework, financed by a small IDF grant to the MOE and the Ministries of Education and Health. However, the monitoring and evaluation unit is not yet formally incorporated into the MOE, nor is the framework integrated into other core ministries. Moreover, monitoring and evaluation units at the regional and district levels also need further capacity building.

12. **Public financial management reform.** Agreement was reached on a joint PEFA assessment that will be used to benchmark Uzbekistan's public finance management (PFM) system. Meanwhile, technical assistance was provided to support continued implementation of the MOF's treasury reform in two phases with the following outputs: (a) a draft instruction establishing the accounting framework and a draft unified chart of accounts consistent with international public sector accounting standards and aligned with the new GFSM 2001-based budget classification; and (b) an accounting framework for budget organizations, as well as the training of 50 staff.

13. **Poverty analysis.** There was no change in the authorities' policy regarding access to primary household budget survey data. Therefore, technical assistance for the newly established Institute for

Social Research focused on providing analytical support, knowledge sharing, and the organization of twinning arrangements between WIS working groups and overseas research institutes. Meanwhile, although a multiple indicator cluster survey (MICS) covering 20,000 households was formally launched in 2010, with UNICEF support, it will not be completed until September, 2011. Analysis of the results of this MICS is expected to provide some indication of trends in poverty-related outcomes.

14. **CAS support for private sector development, business environment, and the investment climate was provided almost entirely by IFC.** Advisory services, comprising four projects totaling almost \$4.5 million (including Central Asia and Azerbaijan regional projects), promoted improvements in the business environment and financial sector. IFC's long-standing investment climate advisory project assessed the impact of proposed regulations affecting businesses and simplifying tax administration. In addition to advisory work on leasing and housing finance, a recently launched regional financial markets infrastructure advisory project focuses on the further development of credit information sharing systems and formal risk management education and certification.

15. **IFC's private sector development work comprised analytical and advisory services in five areas:** (a) improved business environment (as measured by Doing Business); (b) public-private partnerships (PPPs); (c) leasing and housing finance; (d) tax administration; and (e) credit information sharing. According to the IFC team's self assessment, outcomes for leasing and housing finance and for improved business environment were achieved; and those for tax administration, credit information sharing, and PPPs were partly achieved. Regarding the business environment, although Uzbekistan's *relative* country ranking in Doing Business fell during the period, an alternative so-called 'change score' that measures country-specific progress in absolute terms points to modest technical improvements over the past five years. These include: a 25 percent reduction in building permit fees; a new, simplified tax code, and reduced tax rates; a 30 percent reduction in mandatory business inspections; and, adoption of a regulation for cameral (off-site) control of businesses. Despite these positive results, the two main obstacles to an improved business environment and investment climate—limited access to foreign exchange as well as cash local currency—remain essentially unchanged since 2008. As for PPPs, between October 2009-2011, the Ministry of Health worked with IFC under a financial advisory services agreement for a proposed partnership involving medical diagnostic centers; in the end the Ministry of Health decided not to pursue this PPP scheme until a more complete health care reform is implemented. In addition, memoranda of understanding have recently been signed with *Uzkommunkhizmat (UzK)*, the national utilities agency, and with the city of Tashkent for pilot partnerships in utilities and solid waste management respectively. In IFC's view, prospects for completing this PPP agenda are good, albeit not during the current CAS.

16. **IFC invested \$8 million in two financial sector projects during the period.** This modest outcome, although an increase over the preceding (ISN) period, reflected the constraints affecting the country's private sector. A \$3 million credit line to Uzbek Leasing is financing medium-term leases for industrial equipment and machinery for small- and medium enterprises (SMEs). A \$5 million debt and equity financing to Hamkorbank, one of the country's few private banks, is accompanied by advisory services to strengthen management information systems (MIS), human resources, risk management and corporate governance practices. IFC portfolio clients in the financial sector provided almost 40,000 loans to small and medium-sized enterprises during 2008-2009 and held outstanding MSME portfolios of over \$500 million at end-2009. Nonetheless, the country's relatively low private sector/GDP ratio, the small amount of private foreign direct investment, and IFC's own modest portfolio are together evidence that Uzbekistan's business environment and investment climate still require significant improvement.

Pillar 2: Increasing Economic and Income Opportunities in Rural Areas

17. To support government efforts aimed at increasing economic and income opportunities in rural areas, reducing poverty, and lessening regional disparities—and consistent with the WIS' focus on rural

development and improved water resource management—the CAS relied on four ongoing operations: two *Rural Enterprise Support Projects (RESP)—I & II*, the *Drainage, Irrigation & Wetlands Improvement Project*, and the *Fergana Valley Water Resources Management Project*. Together, these were expected to produce three related outcomes: (a) increased yields of corn, cotton, wheat, fruits and vegetables; (b) enhanced farmers’ access to credit and other financial services in seven provinces; and (c) strengthened capacity of water users’ associations.

18. Based on recent ISRs and the ICR for RESP-I, all four projects’ contributed directly or indirectly to achievement of these outcomes. For example, the Drainage, Irrigation & Wetlands Improvement Project enhanced the quality and potential productivity of 100,000 ha of land by investment in improved drainage and irrigation facilities. Likewise, in RESP-I districts, cotton and wheat yields increased on average by 15 percent and 27 percent respectively; farmers’ access to credit and other financial services expanded significantly; and the capacity and viability of water users’ associations, based on hydrographical rather than administrative boundaries, is now stronger. Whether these higher yields translated into increased rural incomes, however, is less clear: the ICR asserts that they helped reduce poverty, but offers no evidence. Although cotton farmers in RESP-I districts were allowed to sell their ‘above quota’ output outside the national ‘state order’ system—an opportunity explicitly designed to help increase their incomes significantly—the delay in issuing the enabling decree, the practical obstacles to ‘above quota’ sales (virtually all cotton ginneries remain government-owned or controlled), and the small scale of the pilot scheme together meant that its results were inconclusive. At the same time, analyses of projects in other (non-RESP) districts suggest that farmers’ incomes remain constrained by the long-standing systemic barriers to technological change and agricultural reform, such as continuing governmental controls over cropping patterns and the supply of inputs such as fertilizers and seeds, as well as other policies and practices that stifle innovation and risk taking. Thus, although CAS outcomes, actual and prospective, contributed to achievement of two of this pillar’s three country goals—increased agricultural productivity and enhanced sustainability of irrigation and land improvement—their influence on farmers’ incomes and, more broadly, their impact on poverty reduction in rural areas are uncertain. Finally, a water sector investment planning study that defined a methodology for prioritizing individual irrigation and drainage investment projects was completed in mid-2009 as planned.

Pillar 3: Strengthening Human Development & Social Protection

19. To strengthen human development and social protection, the CAS targeted three broadly-defined sub-sectoral outcomes: (a) increased provision of safe water and sanitation; (b) improved health indices, specifically for infant and maternal mortality; and (c) enhanced basic education and learning, measured by the adoption of quality enhancing techniques, materials, and participatory practices. It supported government efforts in these three areas through five ongoing projects, two of which were completed during the period, as well as three new operations, supplemented by focused analytical and advisory services.

20. **Improved Provision of Safe Water and Sanitation.** CAS outcomes for increased provision of safe water and sanitation—measured by improved supply reliability, enhanced water quality, energy efficiency, cost recovery, and customer satisfaction under the now completed *Bukhara and Samarkand Water Supply Project*—were fully achieved. However, institutional development efforts to strengthen the two water utilities through a performance-based service contract with an international operator failed, with the ICR rating both project development objectives and Bank and borrower performance *moderately unsatisfactory*. Nevertheless, experience gained under this project helped inform a less ambitious design for the *Bukhara and Samarkand Sewerage Project* approved in FY10. Moreover, a *Municipal Services Sector Study* and a *Water Supply and Sanitation Strategy Note* helped sustain policy dialogue on investment and policy reform priorities and support preparation of three new projects (*Syr Darya Water Supply*, *Alat-Karkul Water Supply*, and *Karakalpakstan Sewerage*), of which one (*Syr Darya Water Supply*) was approved in late-FY11.

21. **Improved Health Indices.** Since the mid-1990s, reforms in Uzbekistan’s public health system have focused on restructuring primary health care—specifically training of general practitioners, upgrading of rural clinics’ infrastructure and equipment, and expansion in the scope of services provided—and establishing an emergency care network. These changes and other structural and health financing reforms supported by the 2nd *Health Project*, now nearing completion, have resulted in increased utilization of services and improved patients’ satisfaction. They have also encouraged health system efficiency, as patients shift to lower-cost, outpatient services, and helped re-orient facilities towards local needs and improved accountability. The recently approved and much larger 3rd *Health System Improvement Project* will provide support for district hospital services improvement, primary health care development, and the quality of secondary health care, for ongoing health financing and management reforms, and for institutional strengthening for non-communicable diseases prevention and control. Meanwhile, although an intended CAS result—to increase the proportion of pregnant women receiving antenatal care during the first trimester—was not achieved, neither this result nor the planned CAS outcome—to reduce infant and maternal mortality further—were a particular focus of the CAS program, which was obviously concentrated more broadly on human and physical infrastructure investments, health financing and management reforms, and institutional development. Progress in these areas under the 2nd *Health Project* and as reflected in the ambitious scope of the 3rd *Health System Improvement Project* was evidently satisfactory.

22. **Improved Basic Education and Learning.** In 2007, Uzbekistan spent 7.5 of its GDP and 25 percent of its budget on education—well above the OECD average—with resources until 2004 concentrated mainly on measures to upgrade secondary vocational education. Since then, there has been a shift in focus to general education, specifically the School Education Development Program, 2004-09, which—coterminous with the *Basic Education Project (BEP)-Phase 1*—has supported rehabilitation and reconstruction of about 8,500 schools, provision of furniture, science and technology equipment and other learning resources, including teacher training, and increased teacher salaries. This focus on improved human and physical resources and the quality of education, as well as financing and structural reforms, produced positive changes in line with intended CAS results and outcomes. For example, *per capita* financing was introduced nationwide in 2010; standardized assessments of student learning for 4th and 8th graders have been implemented nationwide; and 85 percent of *BEP-Phase 1* project schools now have functioning school boards—the target for 2011. Meanwhile, *BEP-Phase 2*, approved in June 2009, builds upon and extends the capacity created under *BEP-1*. It also combines targeted interventions to poor, rural schools with interventions designed to encourage broader, systemic education reform. CAS outcomes for improved basic education and learning were thus achieved.

Pillar 4: Managing Environmental and Disaster Risks and Global Goods Provision

23. The fourth pillar originally provided for a variety of analytical, advisory, and technical assistance activities in five areas: weather forecasting, adaptation to climate change, renewable energy, carbon finance, and communicable diseases. During the FY10 CASPR process, these were reduced to three: improved energy efficiency; reduced greenhouse gas emissions; and improved environmental and disaster risk management. At the same time, an energy efficiency project was added to the program.

24. **Improved Energy Efficiency.** Having declared the need to improve the energy efficiency of industrial enterprises as one of its key priorities, the government requested urgent IDA assistance for a pilot project support implementation of the necessary policy measures and, in particular, to finance investments in energy savings equipment and technology through three commercial banks. Thus, a \$25 million *Energy Efficiency for Industrial Enterprises* operation—the first WBG operational commitment in Uzbekistan’s energy sector—was added to the CAS program and approved in mid-2010, although one year later (mid-2011) it has still not yet been signed. If this pilot is successful, it is planned to develop a more ambitious operation, with a much larger credit line and the addition of more financial intermediaries.

25. **Reduced Greenhouse Gas Emissions.** Dialogue on Uzbekistan’s participation in the Global Gas Flaring Reduction Partnership (GGFR) and Carbon Financing Mechanisms continues. *Uzbekneftegaz*, the national oil and gas company, confirmed its participation in the GGFR Partnership for 2010-12, aiming to reduce gas flaring from its oil production. A possible Clean Development Mechanism (CDM) Gas Flare Reduction Project under the Kyoto Protocol is also under preparation.

26. **Improved Environmental and Disaster Risk Management.** An energy sector vulnerability to climate change study has been initiated. A regional workshop took place in 2009 to launch regional disaster risk management (DRM) reports and to initiate the recently approved Central Asia regional hydro-meteorological program. Technical capacity was built in inventorying obsolete pesticide-contaminated burial sites; inventories and risk assessments were carried out; and recommendations for remediation were prepared for two priority burial sites. Finally, at the regional level, an independent assessment of the regional impact of Vakhsh River Basin development was initiated.

CAS Program Results Rating

27. **The Completion Report rates the achievements of outcomes foreseen in the CAS as *moderately satisfactory*.** First, compared to the mid-2000s, the quality and scope of the Bank’s dialogue and interaction with the government on macro-related policies (except for poverty) has demonstrably improved. Moreover, a substantial program of continuing analytical and advisory activities—including a planned country economic memorandum focused on competitiveness issues—is in place for the next two years. On the other hand, the Bank’s influence and role in Uzbekistan remain limited, the bar was set deliberately low, and the authorities’ ostensibly renewed confidence in Bank economic analysis and policy advice has not yet translated to better access to key economic, financial and social data—nor more generally to improved governance and transparency. Second, although IFC’s advisory services contributed to several technical improvements in the business environment, it could not be expected to overcome the country’s systemic constraints to private sector development. Third, the program achieved significant results on the ground in rural development and improved water resource management, but had little obvious influence on broader agricultural policy reforms or on poverty and regional disparity reduction goals. The human development program, on the other hand, in addition to project-specific results, also contributed to and supported implementation of small-scale, but important pragmatic reforms in education, health, and water supply and sanitation.

IV. WORLD BANK GROUP PERFORMANCE

28. **Reflecting slowly improving Bank-client relations and the need to calibrate different levels of engagement to different degrees of government commitment, the CAS adopted a flexible, two-track approach.** This was defined as: (a) full engagement, *i.e.* lending, analytical and advisory services, and technical assistance, in policy areas and/or sectors of common agreement exemplified by strong government commitment and a successful Bank track record; and (b) limited engagement, *i.e.* analytical and advisory services and/or technical assistance in areas where there was no, or incomplete consensus on goals and where a road map of policies, programs, and sequencing remained to be agreed.

29. **The IDA15 financial envelope** was expected to be in the range \$375-450 million over the three years FY09-11, similar to the allocation under IDA14 but significantly higher than the total \$55 million actually committed between FY04-07. Lending was to focus on investments in: (a) public services affecting rural and urban populations directly that supported implementation of sector-specific reforms; and (b) activities that reinforced Uzbekistan’s contribution to the global goods and climate change agenda and the promotion of regional cooperation. At the government’s request, two significant adjustments were made at the time of the FY10 CAS Progress Report: the addition of three new operations in energy;

and, the resumption of IBRD lending up to \$250 million for two of these three operations. Non-lending activities were to focus on key sector and thematic areas.

30. **Eight operations totaling \$533 million were approved during the period.** Water supply and sewerage (\$143 million) and energy (\$135 million) together accounted for 52 percent of the total, followed by agriculture and water resources management (\$134 million, or 25 percent) and education and health (\$121 million, or 23 percent). In terms of thematic priorities, strengthening human development and social protection received half of total commitments, with four operations totaling \$264 million. Meanwhile, two operations totaling \$134 million supported increasing economic opportunities in rural areas and two totaling \$135 million the energy efficiency element of the environmental and disaster risk management and global goods provision pillar. Thus, CAS outcomes in terms of number of operations were broadly in line with expectations in mid-2008, but significantly exceeded in terms of amounts committed, with lending of \$291 million in FY11—by far the largest to Uzbekistan in any single year.⁴ This was partly due to the addition of two new energy operations in FY10-11, including the \$110 million IBRD loan for Talimarjan Transmission—the largest sector investment loan to Uzbekistan to date. Table 2—Planned Lending and Actual Deliveries, FY08-11—compares originally planned and actual lending.

CAS Design and Relevance

31. **Overall, the CAS was relevant and well aligned with the country's stated development priorities**—although the links between broad-based strategic country goals and CAS-specific programmatic outcomes was sometimes tenuous or unclear. However, the flexible, two-track approach was effective in helping ensure client commitment and ownership and facilitated program adjustment during implementation as intended. Planned outcomes, eschewing controversial or sensitive policies or reforms, were realistic—in fact, given that some were based on already agreed project-specific results, they were relatively undemanding and clearly intended to ensure achievement. In the circumstances, the fact that some were not, or only partly achieved is disappointing. The quality of the results framework was uneven, inconsistent, and unclear in several areas. Five critical risks to CAS implementation were correctly identified, of which three—fiduciary, development effectiveness, and regional cooperation—are ongoing and likely to continue into the next FY12-15 CAS and beyond.

32. **Operationally, the dual track approach worked well, resulting in an almost doubling of the active portfolio during the period**—from six projects totaling \$266 million in FY08 to ten projects totaling \$633 million by end-FY11. Policy impact, however, appears modest—owing partly to the intentionally limited policy content of lending operations, partly to the client's avoidance of sensitive areas for collaborative AAA (such as agriculture, governance, poverty), and partly to the gradual pace and narrow scope of Uzbekistan's structural reforms process. Moreover, despite the improved dialogue and closer Bank/IDA relations, key long-standing issues remain unresolved—*e.g.* data access, quality, and transparency; procurement (including contract registration); implementation delays; and project management.

33. **Design of new projects/programs.** RESP II and three new water supply and/or sewerage operations took into account lessons learned from preceding ICRs (RESP-I and WSSP), especially institutional development experience. Moreover, the potential for more programmatic approaches to (*e.g.*) future water supply and health operations, as well as education (ongoing), is under consideration. At the same time, the Bank's project cycle and the government's investment approval processes are still not well aligned, leading to long delays in signing, effectiveness, and initial implementation. Similarly, procurement remains subject to significant delays, partly due to the government's contract registration/price verification procedures, which also contravene Bank Procurement Guidelines. The

⁴ Bank/IDA lending during the preceding 14 years (FY94-07) totaled \$654.1 million, *i.e.* an annual average of \$47 million, of which \$599.1 million was committed between FY94-03 and \$55 million between FY04-07.

rapid increase in portfolio size and complexity during the period make resolution of these two long-standing generic issues even more urgent.

34. **Relevance, quality, and dissemination of knowledge-based activities.** Given the satisfactory outcome of analytical and advisory services and technical assistance under the first growth pillar (except for poverty analysis), knowledge-based activities were evidently highly relevant, of appropriate quality, and timely (*e.g.* just-in-time notes)—and driven by client demand. Linking these activities explicitly to the implementation of public investments (*e.g.* water supply and sanitation, health) or the resolution of particular policy reform issues (*e.g.* public financial management, private sector development)—as requested by client—ensured ownership and impact. However, access to, and the quality of key economic, financial, and social data remain problematical—despite apparent progress stemming from the 2010 CPIA process and the authorities’ recently indicated readiness to provide data for publication in the IMF’s International Finance Statistics (IFS)—and progress towards broadening the governance and transparency agenda and dialogue was limited. On the other hand, *a priori* agreement on the purpose and scope of planned knowledge-based activities guaranteed their relevance in terms of client interest.

35. **Responsiveness to changing country circumstances, priorities and demands.** The flexibility built into the CAS design was in the event fully exploited during the FY10 mid-term progress review (CASPR) process. At the government’s urgent request, three new energy operations were added to the program and, with CFRCR’s agreement, limited lending of up to \$250 million on IBRD terms was approved. The results matrix was also revised and updated.

36. **Effectiveness of overall donor assistances.** Overall, official development assistance (ODA) to Uzbekistan, never very large, remains limited. Except for the ADB, the multilaterals’ exposure (including that of the Bank) is very modest and there are only a few bilateral or non-governmental agencies engaged, mainly in technical assistance. Consequently, conventional aid coordination and the Bank’s role are not a major issue. On the other hand, the growing impact of emerging new partners such as China, Iran, Korea, and Russia—especially the effectiveness and fiscal impact of their burgeoning investments in industry and infrastructure—will need increasingly to be monitored and taken into account. In this connection, it is unclear to what extent the aid efficiency and effectiveness agenda prescribed by the 2005 Paris Declaration on Aid Effectiveness and, more recently, the 2008 Accra Agenda for Action is being addressed by the small donor community in Tashkent, including by the Bank.

37. **Effectiveness of dialogue and business relations with authorities.** Compared to fraught Bank-client relations earlier in the 2000s, especially during the FY05-07 Interim Strategy Note (ISN) period, the policy dialogue and business dealings have improved steadily since 2007-08, one obvious measure of which is the CAS’ overall moderately satisfactory outcome. However, CAS indicators and goals were modest by design and, despite the enhanced dialogue and relations, several long-standing generic issues—ultimately impeding the effectiveness of Bank Group assistance—remain unresolved. Moreover, despite best efforts, dialogue on regional issues, especially energy and water, remains difficult and ineffective.

38. **Effectiveness of risk mitigation.** Despite progress in mitigating some fiduciary risks—*e.g.* the ongoing public financial management technical assistance activities—procurement and other risks to development impact remain high and are likely to continue. On the other hand, the authorities’ proactive efforts towards end-2008 to mitigate the consequences of the global financial crisis—and the Bank’s intellectual support to the related macroeconomic policy dialogue—were evidently effective. Risks to regional cooperation remain, however, especially those relating to energy and water resources which may have indeed worsened. The proposed Central Asia Energy-Water Development Program (CAEWDP) is designed to manage and mitigate, if not reduce these longer-term risks.

World Bank Group Performance Rating

39. **Taking into account the CAS’ relatively undemanding objectives, the Completion Report rates Bank Group performance as moderately satisfactory.** This outcome mirrors the country’s moderately satisfactory progress towards its development goals. Relatively strong performing areas included macroeconomic management, education, health, water supply and sanitation. Relatively weak performing areas included agriculture, governance, transparency and financial and private sector development. Eight operations totaling \$533 million were approved during the period, of which three totaling \$291 million (55 percent) in FY11 alone—by far the largest annual commitment to date. Except for poverty analysis and the private sector, analytical and advisory activities by the Bank were implemented largely as planned. Portfolio performance remained moderately satisfactory. These outcomes, including the resumption of limited IBRD lending in FY11, evidently validated the efficacy of the CAS’ two-track approach.

V. KEY LESSONS AND SUGGESTIONS

40. The FY08-11 CAS was prepared against the background of gradually improving relations, following the transitional assistance framework under FY06-07 ISN which had effectively limited the program to technical assistance and minimal lending for global goods and social services. During this period of virtual hiatus but also of reflection on the Bank Group’s experience in Uzbekistan since the early 2000s—including the ineffective FY02-04 CAS—several systemic conclusions were drawn. They included the following: (a) that policy dialogue is effective only when demand-driven, specific, and clearly articulated—a finding that applies in many countries, but especially so in Uzbekistan; (b) that despite the challenging, often problematical policy environment, positive outcomes are still possible with appropriately designed, client-driven activities; (c) that investment projects are in general more effective ‘entry points’ for policy dialogue and, ultimately, for encouraging reform than separate analytical and advisory activities or technical assistance; and (d) that to address the country’s limited capacity for project implementation, renewed and systematic attention needs to be paid to several generic issues, such as the country’s public procurement process and project management.

41. These conclusions informed the design and scope of the FY08-11 CAS and the outcomes recorded in this Completion Report—especially those relating to the first and third pillars—have clearly validated their accuracy and relevance. Looking ahead, three additional issues emerge from experience since mid-2008: (a) that the Bank’s project cycle and the government’s process for approving investment projects are still not well aligned, causing significant delays in signing, effectiveness, and initial project implementation—the *Energy Efficiency for Industrial Enterprises* operation being the most recent example; and (b) that the long-standing ‘price verification’ process of the Ministry of Foreign Economic Relations and International Trade—not a legal, but a compliance and transparency issue—requires early resolution, especially given the planned expansion in Bank/IDA lending during the next few years; and (c) that the relevance, timeliness, and value of the Bank’s economic analysis and policy advice—both macro and sector-specific—remains constrained by the limited availability and poor quality of Uzbekistan’s key economic, financial and social data. Action to address these three issues will be an important prerequisite for effective and efficient implementation of the next FY12-15 CPS.

Annexes:

Table 1—Summary of CAS Program Self-Evaluation

Table 2—Planned Lending and Actual Deliveries, FY08-11

Table 3—Planned Non-Lending Services and Actual Deliveries, FY08-11

Table 1: Summary of CAS Program Self-Evaluation¹

PILLAR I: ENABLING ENVIRONMENT FOR SHARED GROWTH			
CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
(a) Institutional support for WIS implementation and Promoting Good Governance (6)			
Macroeconomic policy formulation informed by analytical research and international experience, showing ability to respond adequately to internal or external shocks	Achieved —(a) FY10 CPIA process facilitated dialogue on debt management, tax policy & administration, non-banking financial institutions, and data transparency; (b) TA strengthened macroeconomic analytical capacity related to mitigating impact of global crisis, and introduced analytical tools related to growth and innovation.	<ul style="list-style-type: none"> • Economic monitoring (TA) • CPIA Policy Dialogue (TA) • Vulnerability Assessment (TA) • Innovation & Growth (TA) • Financial Sector Policy Dialogue (TA) 	
GOU adopts techniques consistent with international practice for Household Budget Surveys and Labor Force Surveys	Not achieved —preparation of Multiple Indicator Cluster Survey (MICS) underway since early 2010 (with UNICEF support), but execution under way only since 2011. Progress towards enhancing quality of poverty analysis (for WIS II) limited to WBG analytical support.	<ul style="list-style-type: none"> • Dialogue on Poverty and Social Protection (TA) 	
GOU establishes M&E system to assess WIS implementation	Partly achieved —WIS monitoring framework developed in Ministry of Economy (MoE), but not yet integrated into other ministries. M&E unit established, but not yet formally included in MoE. Database of over 170 M&E indicators created in MoE and in Ministries of Education and Health.	<ul style="list-style-type: none"> • WIS implementation support (TA) • WIS Monitoring and Evaluation (IDF/TF) 	

¹ Data and assessments as of end-FY11

Public financial management reform process benchmarked by PEFA-type assessments	Partly achieved —Ministry of Finance agreed to conduct first PEFA self-assessment with WBG methodological support, but agreement on independent review as well as results validation and disclosure pending. WBG (and IMF) continued support for implementation of treasury.	<ul style="list-style-type: none"> • PEFA Self Assessment (TA) • External and Internal Audit (IDF/TF) 	
Increased transparency in public resource utilization, measured by publication of summary budget execution reports	Achieved —not by publication of summary budget execution reports, but through more regular budget reporting (monthly and quarterly) and greater comprehensiveness (<i>e.g.</i> all extra-budgetary funds, except Fund for Reconstruction & Development incorporated in treasury system). Treasury system adopted GFSM 2001-based budget classification in 2011.	<ul style="list-style-type: none"> • CPIA Policy Dialogue (TA) • Public Sector Management Support (TA) 	
Progress in dialogue on governance, including gradual extension from sector-specific to broader, common issues	Achieved —CPIA policy dialogue broadened to include data transparency, banking system reforms, and industrial policy. Uzbekistan signed UN Convention Against Corruption in 2008, ratified OECD's Istanbul Anti-Corruption Action Plan in 2010, and set up working group to draft national anti-corruption strategy	<ul style="list-style-type: none"> • Dialogue on Governance in Health Sector (TA) • CPIA Policy Dialogue (TA) • AML/CFT (TA) <p>Partnerships: IMF, UNDP, ADB</p>	
(b) Private Sector Development, Business Environment, and Investment Climate (6)			
Improved overall business environment, as measured by annual Doing Business surveys	Partly achieved —although its relative country ranking fell from 138/181 in 2009 to 150/183 in 2010 & 2011, Uzbekistan's 'change score' of 0.18 (on a scale of 0-0.54), which measures progress in absolute terms since 2006, ranked it 22 out of 87 countries for which 'change scores' were calculated.	<ul style="list-style-type: none"> • Benchmarking through Doing Business (TA) • Private sector development dialogue (TA) • ROSC Dissemination (TA) 	
Strengthened insurance regulation and supervision to promote and secure sound, stable insurance market	Not achieved —	<ul style="list-style-type: none"> • Strengthening insurance supervision—FIRST initiative grant (TF) 	
Increased private participation in infrastructure projects	Partly achieved —pilot PPP for medical diagnostic centers under preparation, Presidential decision pending since February, 2011. MOUs signed with <i>Uzkommunkhizmat</i> September 2010 and Tashkent Municipality April 2011 for pilot water supply & solid	<ul style="list-style-type: none"> • IFC/PPP Advisory • Introduction of PPP Support (TA) 	

	waste management PPPs		
Leasing and housing finance sectors developed in line with international best practice	Achieved —value of lease financing increased from \$265 million in 2007 to over \$770 million in 2009. Law on Realtors’ Activities adopted and appraisal criteria for housing finance drafted, publicly discussed, and approved by Appraisers’ Associations. Mortgage lending training program, mortgage borrowers’ guide, and mortgage best practices developed	<ul style="list-style-type: none"> • IFC Advisory 	
Improved system for credit information sharing as measured by Doing Business indicator and by increased number of credit reports issued	Partly achieved —credit information sharing increased by 1%. Adoption of law <i>On Sharing Credit Information</i> expected to facilitate increased coverage		
Simplified tax administration	Partly achieved —new Tax Code effective January 2008. Discrepancies, mainly linguistic, between Uzbek and Russian texts of Tax Code eliminated by amending law approved December 20, 2009	<ul style="list-style-type: none"> • CPIA Policy Dialogue (TA) • IFC Advisory Partnerships: IMF, EBRD	
PILLAR II: INCREASE INCOME AND ECONOMIC OPPORTUNITIES IN RURAL AREAS (3)			
CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
Increased productivity of farming in area totaling 2 million ha, as measured by higher yields of cotton, wheat, potatoes, fruits, vegetables, silage corn	Partly achieved — <ul style="list-style-type: none"> • 100,000 ha provided with improved irrigation and drainage, of which 50,000 with water table up to 2 m below surface • Cabinet of Ministers decree allows RESP II project farmers to sell ‘above state quota’ cotton within project area • State procurement price for cotton increased 37% between 2009-10 	<ul style="list-style-type: none"> • Drainage, Irrigation and Wetlands Improvement Project (SPN) • Rural Enterprise Reform Project —RESP II (SPN) • Policy Dialogue on Agriculture (TA) 	

Enhanced farm access to financial services in 7 regions, as measured by 500 new microcredit lines	<p>Achieved:</p> <ul style="list-style-type: none"> RESP II participating banks finance agricultural machinery, greenhouses, equipment and materials for development of orchards, vineyards, animal husbandry, poultry and fisheries RESP II participating banks disbursed \$15.7 million to 185 beneficiaries to date 	<ul style="list-style-type: none"> Rural Enterprise Reform Project —RESP II (SPN) 	
Enhanced capacity and financial viability of Water Users' Associations (WUAs), as measured by: <ul style="list-style-type: none"> Increased maintenance conducted by WUAs Baseline: 30% Target: 45% Increased fee collection Baseline: 15% Target: 30% Financial & institutional support to 84 WUAs 	<p>Partly Achieved:</p> <ul style="list-style-type: none"> International consultant selected to design and supervise civil works RRA and SDC consultants completing financial and economic analysis of WUAs, with fee collection one of the main issues under review. Financial & institutional support provided to re-structure 84 administratively managed WUAs into 62 canal-level management/hydrographic units 	<ul style="list-style-type: none"> Rural Enterprise Reform Project —RESP II (SPN) 	
PILLAR III: STRENGTHEN HUMAN DEVELOPMENT & SOCIAL PROTECTION THROUGH BETTER SERVICE DELIVERY			
CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
(a) Improved provision of water & sanitation (1)			
Improved access to safe, water and sanitation in Bukhara and Samarkand project areas, as measured by: <p>(a) Reliable water supply: Baseline(2007): Bukhara—87%; Samarkand—48%</p> <p>(b) Enhanced water quality:</p>	<p><i>Achieved—</i></p> <ul style="list-style-type: none"> Access to reliable water supply increased to 98% in project areas (exceeding targets) 103 km of pipe replaced in Bukhara and 126 	<ul style="list-style-type: none"> Bukhara-Samarkand Water Supply Project (SPN) Bukhara-Samarkand Sewerage Project (SPN) Water Sector Policy Note (ESW) Water Sector Dialogue (TA) 	<ul style="list-style-type: none"> Project design should be simple in a low-capacity context Projects should be restructured/amended to reflect changes in project designs or implementation arrangements Frequent TTL transitions should be avoided

<p><i>Baseline</i> (2007): % of samples failing quality tests in Bukhara—8%; Samarkand—40%</p> <p><i>Target</i> (2011): <5%</p> <p>(c) Strengthened financial viability, as measured by improved collections of water tariff:</p> <p><i>Baseline</i> (2007): Bukhara—67%; Samarkand—44%</p> <p><i>Target</i> (2011): Bukhara—87%; Samarkand—80%</p>	<p>km in Samarkand</p> <ul style="list-style-type: none"> • Shokhrud Water Treatment plant rehabilitation completed and operational • Mulyon water reservoir completed and operational • Water quality sampling and testing program in place in both Bukhara & Samarkand • Water quality improved in project areas—only 3% of water samples tested failed chlorine residual standards (exceeding <5% target) • Billing system installed in vodokanals (water utilities) in both Bukhara & Samarkand • Collection rates improved—to 86% and 89% in Bukhara and Samarkand respectively (achieving targets) 		<ul style="list-style-type: none"> • International consultants may provide valuable services • Civil works oversight obligation by the Borrower is critical and should be built into the project contracts • Monitoring should be adapted to client's capacity; M&E plans and collection of baseline data should be completed by project appraisal • Fiduciary and procurement capacity is essential to success of project implementation
<p>(b) Improved health indices (2)</p>			
<p>Enhanced access to quality health care, as measured by:</p> <p>(a) increased use of primary health care services—% of pregnant women receiving antenatal care in first 12 weeks</p> <p><i>Baseline</i> (2007)—85%</p> <p><i>Target</i> (2011)—95%</p> <p>(b) % of CRHs using case-based financing</p> <p><i>Baseline</i> (2007) : 0%</p> <p><i>Target</i> (2011): 100%</p> <p>(c) % of public health expenditures on primary health and out-patient care</p> <p><i>Baseline</i> (200)—43%</p> <p><i>Target</i> (2011)—50%</p> <p>Reduced health risks from global pandemic through</p>	<p>Not achieved—</p> <ul style="list-style-type: none"> • Deterioration in utilization of antenatal care, and in levels of anemia in fertile women • Initial steps in pilot Ferghana oblast, but no hospitals actually using case-based financing to date • % of public health expenditures on primary health care increased to 47% in 2009 (and <i>per capita</i> by \$38 compared through 2009) <p>Partly achieved—</p>	<ul style="list-style-type: none"> • 2nd Health Project (SPN) • National Flour Fortification Project (TA) • Health System Improvement Project (LEN) • Health and Education M&E and Capacity Building (IDF/TF) • Social Sectors' Public Expenditure Review (ESW) <ul style="list-style-type: none"> • Central Asia HIV/AIDS Project (SPN) 	

<p>(a) Improved HIV/AIDS prevention & control, as measured by: % of HIV-positive children born to HIV-positive mothers <i>Baseline</i> (2007)—60% <i>Target</i> (2010)—85%</p> <p>% of HIV-positive pregnant women receiving ARV prophylaxis <i>Baseline</i> (2007)—90% <i>Target</i> (2010)—100%</p> <p>% of HIV-positive women receiving ARV treatment voluntarily: <i>Baseline</i> (2007)—70% <i>Target</i> (2010)—100%</p> <p>(b) Improved seasonal flu prevention & control, as measured by: % of at-risk population vaccinated <i>Baseline</i>(2007)— 50% <i>Target</i> (2010)—100% # of AI diagnostic tests annually on animal and human samples</p>	<ul style="list-style-type: none"> • 100% coverage of HIV+ pregnant women with ARV treatment. • 1,128 professionals trained in Drug Consumption Harm Reduction Program • 45 trainers and 298 chief epidemiologists trained to provide training on HIV/AIDS for general practitioners • 243 <i>mahalla</i> leaders in five pilot regions trained in sensitizing population on HIV/AIDS prevention • 132 HIV/AIDS laboratory staff trained in HIV diagnostics quality assurance and control • Country framework developed for dealing with potential avian influenza outbreaks and pandemics • Human, institutional, physical capacity for dealing with potential avian influenza outbreaks strengthened • Increased public awareness about human-animal interface, not only for avian and pandemic influenza preparedness, but also for food safety and food security, poverty reduction, and equitable growth 	<ul style="list-style-type: none"> • Avian Influenza Control and Human Preparedness and Response Project <p>Partnerships: ADB, FAO, USAID, WHO, UNICEF</p>	
<p>(c) Improved basic education and learning (1)</p>			

<p>Schools adopt quality enhancing techniques, materials and participatory practices as measured by:</p> <p>(a) % of schools with core set of educational materials available <i>Baseline</i> (2007): 10% <i>Target</i> (2011): 80%</p> <p>(b) % of retrained teachers in project schools <i>Baseline</i>(2007): 5% <i>Target</i> (2011): 70%</p> <p>(c) % of project schools with active boards <i>Baseline</i> (2007): 75% <i>Target</i>: (2011):</p>	<p>Achieved—</p> <p>100% of project institutions (pre-schools and Grades 1—4) received core set of educational materials—the former comprising 53 items totaling \$1.9 million and the latter comprising 55 items totaling \$4.5 million</p> <p>All teacher trainers have been trained on SBTT—94 facilitators for schools and 71 for preschools as well as 600< school and preschool principals</p> <p>100 % of project schools have active boards</p> <p>National standardized test for grades 4 and 8 implemented</p>	<ul style="list-style-type: none"> • Basic Education Project – Phase 1 (SPN) • Basic Education Project –Phase 2 (SPN) • Education AAA <p>Partnerships: ADB, UNDP, UNICEF, SECO, KfW, JICA, JBIC</p>	
PILLAR IV: ENVIRONMENTAL MANAGEMENT, DISASTER RISK MANAGEMENT, AND GLOBAL GOODS PROVISION (4)			
CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
<p>Enhanced awareness of energy savings & sources of renewable energy in selected remote areas, as measured by # of equipped public service buildings in remote areas</p>	<p>Partly achieved—</p> <ul style="list-style-type: none"> • Energy Efficiency workshops held for commercial bank loan officers and enterprise staff in light industry, textiles, building materials, electrical equipment • Metering strategy was reviewed by international expert 	<ul style="list-style-type: none"> • Talimarjan Transmission (LEN) • Energy Efficiency for Industrial Enterprises (SPN) • Municipal Governance (TA) 	

<p>Reduced greenhouse gas emissions, as measured by:</p> <ul style="list-style-type: none"> • <u>Emissions:</u> <i>Baseline (2004): 121 m. tons CO₂</i> • Intensity: <i>Baseline (2004): 2,686 tons CO₂ per mln. 2000 ppp US\$ GDP</i> 	<p>Partly achieved—</p> <ul style="list-style-type: none"> • Nine Clean Development Mechanism (CDM) projects registered at UNFCCC Secretariat between 2009-2011 • <i>Uzbekneftegaz</i> endorsed Global Gas Flaring Reduction Partnership and its Voluntary Standard for Global Gas Flaring Reduction, and became Partner of GGFR • Associated Gas Recovery Plan (AGRP) prepared and presented, September, 2010 	<ul style="list-style-type: none"> • <i>Uzbekneftegaz</i> Associated Gases Recovery Project (Carbon Fund) • Global Gas Flaring Reduction Partnership (TA) 	<ul style="list-style-type: none"> • Funding for preparation of CDM project components should be supported by investments in project implementation
<p>Optimal adaptation strategies for managing risks to energy sector of changing climatic hazards established</p> <p>Analysis and prioritization of obsolete pesticide contaminated sites initiated</p>	<p>Partly achieved—</p> <ul style="list-style-type: none"> • Three workshops for over 100 energy sector professionals held on Climate Vulnerability, Risk and Adaptation Assessments • Recommendations for improving climate resilience of energy sector developed and proposed to government 	<ul style="list-style-type: none"> • Agriculture vulnerability to climate change (regional ESW/TA) • Central Asia Hydromet (LEN) • Central Asia Energy-Water Development Program (TA) • Energy vulnerability to climate change (ESW) <p>Partnerships: ADB, UNDP, USAID, ICARDA, IWMI, SDC/SECO, KfW</p>	

Table 2: Planned Lending and Actual Deliveries (FY08-11)

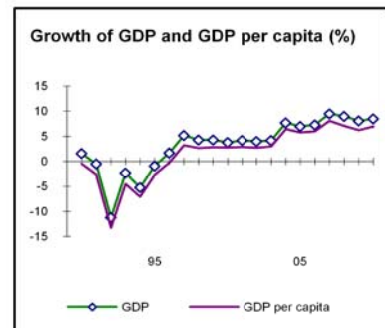
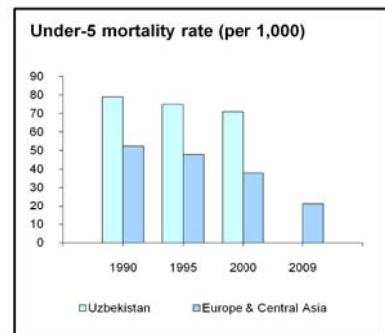
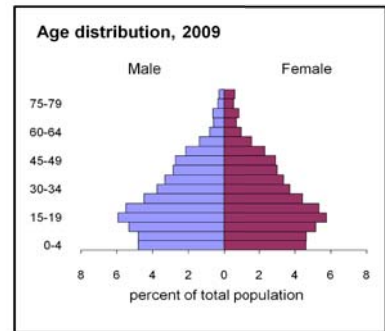
CAS PLANS (05/14/2008)				STATUS (06/30/2011)		
		US\$ (M)			US\$(M)	
		IBRD	IDA		IBRD	IDA
2008	Rural Enterprise Support—Phase II		68	Cr. 44330 approved 06/12 /08		68
	Subtotal		68	Subtotal		68
2009	Ferghana Valley Water Resources Mgt. Basic Education—Phase II		40 25	Forwarded to FY10 Cr. 45980 approved 06/23/09		28
	Subtotal		65	Subtotal		28
	Subtotal: FY2008-09		133	Subtotal FY2008-09		96
CAS PROGRESS REPORT PLANS (05/20/2010)				STATUS (as of 06/13/2011)		
2010	Bukhara & Samarkand Sewerage		55	Cr. 46330 approved 08/04/09		55
	Ferghana Valley Water Resources Mgt.		66	Cr. 46480 approved 09/24/09		66
	Energy Efficiency Facility for Industrial Enterprises		25	Cr. 47450 approved 06/17/10		25
	Subtotal		146	Subtotal		146
2011	Syr Darya Water Supply		108	Cr. 48690 approved 03/01/2011		88
	Talimarjan Transmission	170		Ln. 80090 approved 03/15/2011	110	
	Health System Improvement		93	Cr. 4896 approved 04/07/2011		93
	Alat-Karakul Water Supply		12	Forwarded to FY12		
	Advanced Electricity Metering	80		Forwarded to FY12		
	Subtotal	250	213	Subtotal	110	181
	Subtotals FY2010-11:	250	359	Subtotals FY2010-11:	110	327
	TOTALS FY 2008-11:	250	492	TOTALS FY 2008-11:	110	423

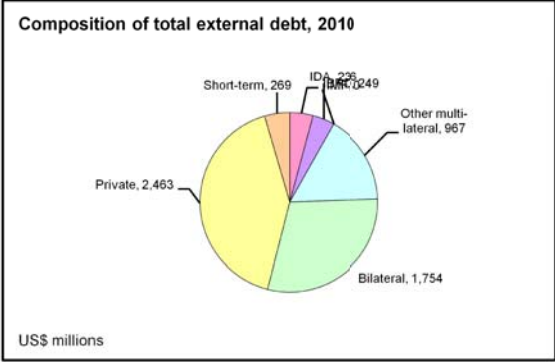
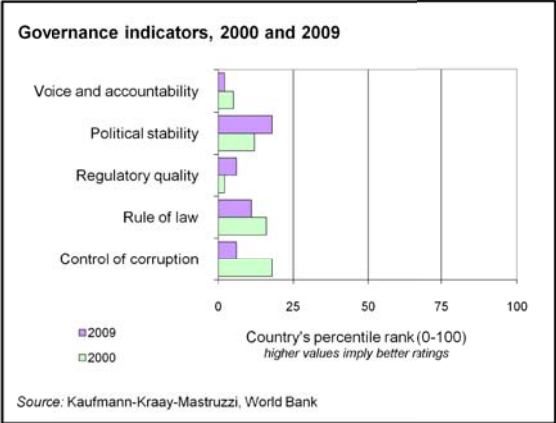
Table 3: Planned Non-Lending Services and Actual Deliveries (FY2008-11)

CAS PLANS (05/14/2008)		STATUS (06/30/2011)
2008	<p>Governance Assessment of Health Sector</p> <p>Hospital Sector Reform</p> <p>Health and Nutrition Review</p> <p>Water Sector Investment Planning Study</p> <p>Advice on Development of Treasury System Accounting and Auditing (ROSC)</p> <p>Private/Financial Sector Dialogue</p>	<p>Report No. 44530-UZ—<i>Assessment of Primary Health Care Reform: Transparency, Accountability, and Efficiency</i>—issued 05/20/2009</p> <p>Policy Note completed 06/30/2008</p> <p>Regional situational analysis (KYR, TAJ, and UZB) completed 03/08/11, jointly with UNICEF</p> <p>Report—<i>Methodology for Ranking Irrigation Infrastructure Investment Projects</i>—sent to Ministry of Economy 06/09/09</p> <p>Advisory TA provided to Ministry of Finance during FY08-09</p> <p>ROSC—Accounting and Auditing sent to Ministry of Finance 04/02/10</p>
2009	<p>Welfare Improvement Strategy (WIS) TA</p> <p>Governance Assessment of Municipal Services</p> <p>Growth and Poverty Dialogue TA</p> <p>Assessing Vulnerability—Phase 1</p> <p>Public Sector Management Support TA—Phase 1</p>	<p>Ongoing</p> <p>Ongoing—Institute of Social Research capacity development</p> <p>Completed</p> <p>Completed—Unified Chart of Accounts (Treasury) instructions submitted to Ministry of Finance 06/20/09</p>
PROGRESS REPORT PLANS (03/31/2010)		STATUS (as of 06/30/2011)
2010	<p>Advice on Development of Treasury System</p> <p>Assessing Vulnerability—Phase 2</p> <p>Municipal Development and Governance</p> <p>Growth and Innovation (TA)</p> <p>CPIA Policy Dialogue</p> <p>Financial Sector Development Policy Dialogue</p> <p>Private Sector Development Policy Dialogue</p>	<p>Advisory TA to Ministry of Finance</p> <p>Completed—<i>e.g.</i> estimating impact of global crisis using a CGE model; designing fiscal anti-crisis measures; methodology to assess innovation potential in selected industries, <i>etc.</i></p> <p>Ongoing FY10-11</p> <p>Ongoing FY10-11</p> <p>Completed</p> <p>FIRST TA preparation mission (insurance) visited Uzbekistan 04/09</p> <p>Draft report—<i>Role of National Quality Infrastructure in Uzbekistan's</i></p>

	<p>Municipal Governance TA</p> <p>Public Sector Management Support TA—Phase 2</p>	<p><i>Modernization Strategy</i>—discussed at in-country workshop 01/19/11</p> <p>Report—<i>Improving Water Supply and Sanitation Services Delivery through Better Customer Relationship Management</i>—delivered 06/25/10</p> <p>Unified Chart of Accounts (Budget Organizations) submitted to Ministry of Finance 09/20/10</p>
2011	<p>Insurance Sector Development</p> <p>Public Expenditure Review</p> <p>Basic & Pre-School Education—Policy Note</p> <p>Fruit and Vegetables—Policy Note</p> <p>Country Integrated Fiduciary Assessment (CIFA)</p> <p>Innovation and Growth TA</p> <p>Municipal Governance TA</p> <p>Audit Firms Review Follow-up TA</p> <p>UAP-ES Assessment TA</p>	<p>Forwarded to FY12</p> <p>Forwarded to early FY12</p> <p>Completed—</p> <p>Contributed to 2011 Uzbekistan Innovation Fair and international conference on Innovation and SME development, Tashkent, April 2011</p> <p>Collection and analysis of data for water utilities’ performance benchmarks underway</p> <p>Ongoing</p>

Annex A2: Uzbekistan - Country at a glance





Millennium Development Goals

*With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)*

Uzbekistan

Goal 1: halve the rates for extreme poverty and malnutrition

Poverty headcount ratio at \$1.25 a day (PPP, % of population)	<2	..	42.3	46.3
Poverty headcount ratio at national poverty line (% of population)	..	..	27.5	27.2
Share of income or consumption to the poorest quintile (%)	..	..	9.2	7.1
Prevalence of malnutrition (% of children under 5)	..	18.8	7.9	4.4

Goal 2: ensure that children are able to complete primary schooling

Primary school enrollment (net, %)	78	..	..	88.0
Primary completion rate (% of relevant age group)	..	98	96	92
Secondary school enrollment (gross, %)	101	92	88	104
Youth literacy rate (% of people ages 15-24)	100	100	100	99.8

Goal 3: eliminate gender disparity in education and empower women

Ratio of girls to boys in primary and secondary education (%)	94	..	98	98.3
Women employed in the nonagricultural sector (% of nonagricultural employment)	46	44	43	..
Proportion of seats held by women in national parliament (%)	..	6	7	18

Goal 4: reduce under-5 mortality by two-thirds

Under-5 mortality rate (per 1,000)	79	75	71	38
Infant mortality rate (per 1,000 live births)	65	62	59	34
Measles immunization (proportion of one-year olds immunized, %)	84	91	99	98

Goal 5: reduce maternal mortality by three-fourths

Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	24	30
Births attended by skilled health staff (% of total)	..	98	96	100
Contraceptive prevalence (% of women ages 15-49)	..	56	68	65

Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases

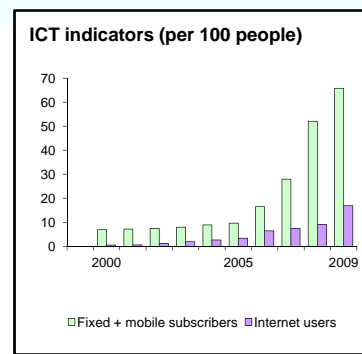
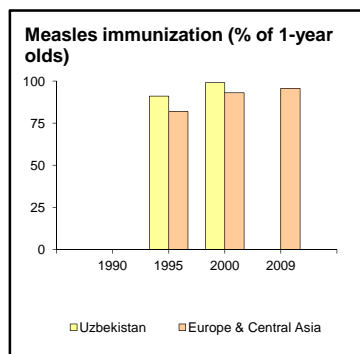
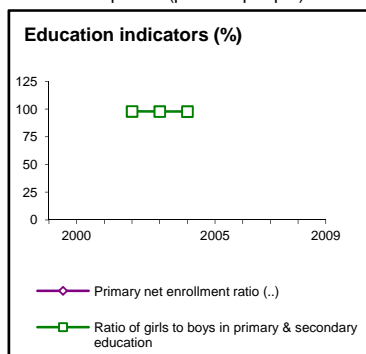
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	68	..	..	130
Tuberculosis case detection rate (% , all forms)	36	34	50	50

Goal 7: halve the proportion of people without sustainable access to basic needs

Access to an improved water source (% of population)	94	..	..	87
Access to improved sanitation facilities (% of population)	51	..	..	100
Forest area (% of land area)	..	..	7.6	7.7
Terrestrial protected areas (% of land area)	..	..	..	1.9
CO2 emissions (metric tons per capita)	5.3	4.4	4.8	4.3
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	0.9	0.8	0.8	1.3

Goal 8: develop a global partnership for development

Telephone mainlines (per 100 people)	6.8	6.8	6.7	6.7
Mobile phone subscribers (per 100 people)	0.0	0.0	0.2	59.1
Internet users (per 100 people)	0.0	0.0	0.5	16.9
Personal computers (per 100 people)	..	..	..	3.1



Note: Figures in italics are for years other than those specified. .. indicates data are not available.
Development Economics, Development Data Group (DECDG).

Annex B2: Uzbekistan - Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 10/17/2011

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	6	8	10	10
Average Implementation Period (years) ^b	3.6	2.7	2.5	2.8
Percent of Problem Projects by Number ^{a, c}	0.0	12.5	10.0	10.0
Percent of Problem Projects by Amount ^{a, c}	0.0	4.2	4.0	4.0
Percent of Projects at Risk by Number ^{a, d}	16.7	25.0	20.0	20.0
Percent of Projects at Risk by Amount ^{a, d}	15.9	15.4	10.3	10.3
Disbursement Ratio (%) ^e	17.4	22.9	13.8	2.5
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	11	2
Proj Eval by OED by Amt (US\$ millions)	425.8	93.6
% of OED Projects Rated U or HU by Number	30.0	0.0
% of OED Projects Rated U or HU by Amt	43.3	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3(a): Uzbekistan - IBRD/IDA Program Summary¹

Proposed IBRD/IDA Base-Case Lending Program ^a

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/ML)</i>	<i>Implementation b Risks (H/ML)</i>
2012	Alat-Karakul Water Supply Project	50.0	H	M
	Advanced Electricity Metering Project	110.0	H	M
	RESP - Additional Financing	40.0	M	M
	Result	200.0		
2013	Enterprise Energy Efficiency II	100.0	M	M
	South Karakalpakstan Drainage Project	150.0	M	M
	Water Sanitation Sector Investment Project 1	50.0	M	H
	Result	300.0		
2014	Microfinance/credit access	50.0	H	H
	Early Childhood Development	100.0	H	M
	Water Sanitation Sector Investment Project 2	100.0	M	M
	Horticulture Pilot Project	100.0	M	M
	Electricity Distribution	100.0	M	M
	Result	450.0		
2015	Urban Integrated Development Project	100.0	H	M
	Transport Unidentified	100.0	H	M
	IBRD Project Unidentified (Outer years)	100.0	M	M
	IDA Project Unidentified (IDA 17 ¹)	100.0	M	M
	Result	400.0		
Overall Result		1,350.0		

¹ Subject to Uzbekistan's continuing IDA eligibility in FY17

¹ Overall lending amounts will depend on the IBRD's lending capacity and demand by other borrowers as well as Government demand and performance in the course of the CPS period.

Annex B3 (b): Uzbekistan - IFC Investment Operations Program

	2008	2009	2010	2011
<u>Original Commitments (US\$m)</u>				
IFC and Participants		4.25	5.20	0.45
IFC's Own Accounts only		4.25	5.20	0.45
<u>Original Commitments by Sector (%) - IFC Accounts only</u>				
Finance and Insurance		70.59	100	100
Wholesale and Retail Trade		29.41		
Total	0	100	100	100
<u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u>				
Equity			61.54	100
Loan		100	38.46	
Total	0	100	100	100

Annex B4: Uzbekistan - Summary of Non-lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent Completions				
Energy Dialogue TA	2007	105 GOV		KG, PS
Ferghana Valley TA	2007	111 GOV		KG, PS
Municipal Sector Review	2007	124 GOV		KG, PS
Poverty Assessment	2007	565 GOV		KG, PS
Private and Financial Sectors TA	2007	57 GOV		KG, PS
Programmatic PER	2007	130 GOV		KG, PS
Promoting Carbon Finance	2007	9 GOV		KG, PS
PRSP TA	2007	487 GOV		KG, PS
Tashkent CDM Forum	2008	14 GOV		KG, PS
Hospital Policy Note	2008	102 GOV		KG, PS
Poverty	2008	58 GOV		KG, PS
PSD/FSD Policy Dialogue	2008	42 GOV		KG, PS
Governance Assessment	2008	435 Bank		KG, PS
FSD Policy Dialogue	2009	55 GOV		KG, PS
ROSC A&A	2009	154 GOV		KG, PS
Debt and Tax Reforms	2009	154 GOV		KG, PS
Uzbekistan WSS Strategy	2009	54 GOV		KG, PS
Water Sector Investment Planning Stud	2009	299 GOV		KG, PS
Advice on Development of Treasury sys	2010	61 GOV		KG, PS
Assessing Vulnerability (TA)	2010	157 GOV		KG, PS
Assessing Vulnerability 2	2010	69 GOV		KG, PS
FIU Workshop in Tashkent, Uzbekistan	2010	25 GOV		KG, PS
FSD Policy Dialogue	2010	71 GOV		KG, PS
Mun. Sector Development &Governanc	2010	85 GOV		KG, PS
PSD Policy Dialogue	2010	63 GOV		KG, PS
Uzbekistan Municipal Governance TA	2010	106 GOV		KG, PS
CIFA	2011	110 GOV		KG, PS
Dialogue on Pov/Social Safety Nets	2011	84 GOV		KG, PS
PSM Support	2011	63 GOV		KG, PS
FSD Policy Dialogue	2011	38 GOV		KG, PS
Private Sector Development Policy	2011	80 GOV		KG, PS
Underway				
CIFA Phase 2 - Dissemination & Follow	2012	20 GOV		KG, PS
CPIA Policy Dialogue	2012	178 GOV		KG, PS
EE Strategy for Industrial Enterprises	2012	22 GOV		KG, PS
FIRST UZ Streng. Insurance Spn.	2012	71 GOV		KG, PS
Growth and Innovation	2012	408 GOV		KG, PS
UAP-ES Assessment	2012	34 GOV		KG, PS
UZ Doing Business Reforms	2012	83 GOV		KG, PS
Water Utility Pricing	2012	N/A GOV		KG, PS
Country Economic Memorandum	2012	N/A GOV		KG, PS
Industrialization Policy Note	2012	N/A GOV		KG, PS
PEFA	2012	N/A GOV		KG, PS
Agriculture Competitiveness Strategy	2012	N/A GOV		KG, PS
Poverty Monitoring/analysis Support	2012	N/A GOV		KG, PS
Planned				
Water Resource Management Strategy	2013	N/A GOV		KG, PS
Transport Assessment	2013	N/A GOV		KG, PS
Strategy Report "Uzbekistan Vision 203	2013	N/A GOV		KG, PS
Poverty Monitoring/analysis Support	2013	N/A GOV		KG, PS
National Infrastructure Quality	2013	N/A GOV		KG, PS
Industrialization Policy Note	2013	N/A GOV		KG, PS
Poverty Monitoring/analysis Support	2014	N/A GOV		KG, PS
Industrialization Policy Note	2014	N/A GOV		KG, PS
Poverty Monitoring/analysis Support	2015	N/A GOV		KG, PS
Industrialization Policy Note	2015	N/A GOV		KG, PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Annex B6: Uzbekistan - Key Economic Indicators

Indicator	Actual			Estimate		Projected			
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	28	26	24	21	20	19	18	18	17
Industry	23	27	32	31	33	33	39	38	37
Services	49	46	44	48	47	48	43	45	45
Total Consumption	71	75	76	72	74	72	75	76	75
Gross domestic fixed investment	18	18	21	25	26	25	25	24	25
Government investment	3	3	3	3	3	3	4	4	5
Private investment	15	15	18	21	23	21	21	20	21
Exports (GNFS) ^b	38	37	40	44	36	31	30	30	32
Imports (GNFS)	29	31	37	41	36	28	30	30	32
Gross domestic savings	29	25	24	28	26	28	25	24	25
Gross national savings ^c	34	28	28	34	29	32	30	29	30
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	14308	17031	22308	27934	32818	38974	46114	53344	57239
GNI per capita (US\$, Atlas method)	530	600	720	900	1100	1280	1570	1820	2040
Real annual growth rates (% , calculated from 97 prices)									
Gross domestic product at market prices	7.0	7.3	9.5	9.0	8.1	8.5	8.3	8.0	7.8
Gross Domestic Income	7.0	7.3	9.5	9.0	8.1	8.5	7.5	5.8	4.7
Real annual per capita growth rates (% , calculated from 97 prices)									
Gross domestic product at market prices	5.8	6.0	8.1	7.1	6.2	7.0	7.7	6.8	6.5
Total consumption	3.4	8.3	5.2	3.8	5.7	3.8	12.7	5.5	2.8
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	5416	6326	8851	12158	11679	12163	13830	16092	18141
Merchandise FOB	4757	5377	7692	10811	10495	10841	12302	14244	16058
Imports (GNFS) ^b	4101	5364	8150	11393	11698	11029	13694	16204	18123
Merchandise FOB	3310	4008	5798	8606	8376	7805	8996	10893	12378
Resource balance	1315	963	701	765	-19	1134	136	-113	19
Net current transfers	658	733	1224	1980	475	1705	595	623	448
Current account balance	1949	1550	1629	2432	878	2612	2626	2619	2523
Net private foreign direct investment	88	194	734	711	838	1628	1418	1410	1303
Long-term loans (net)	-223	-371	-208	-108	-248	-569	1011	2135	2448
Official	16	-81	-9	38	246	270	1275	2119	2031
Private	-239	-290	-199	-146	-494	-839	-264	16	417
Other capital (net, incl. errors & omissions)	-1065	191	0	922	411	-2559	-1219	-1686	-1638
Change in reserves ^d	-748	-1564	-2155	-3958	-1879	-1112	-3835	-4477	-4635

Public finance (as % of GDP at market prices)^e									
Current revenues	30.8	31.4	31.7	35.7	33.8	32.5	34.7	35.0	35.2
Current expenditures	25.7	26.5	27.1	28.6	30.9	31.5	31.9	31.0	30.9
Current account surplus (+) or deficit (-)	5.1	4.9	4.5	7.0	2.9	1.0	2.8	4.1	4.3
Capital expenditure	5.4	4.4	4.0	3.5	3.4	3.4	4.1	4.3	4.6
Monetary indicators									
M2/GDP	14.4	15.4	16.7	17.3	18.5	19.4	20.1	21.6	24.3
Growth of M2 (%)	54.2	39.0	46.9	35.6	39.9	34.6	27.1	29.9	34.4
Price indices(YR97 =100)									
Merchandise export price index	100.0	100.0	100.0	100.0	100.0	98.0	99.8	102.3	103.0
Merchandise import price index	103.3	106.6	110.6	119.2	122.2	104.8	111.0	119.9	128.9
Real exchange rate (US\$/LCU) ^f	77.6	85.3	84.1	85.3	94.5	96.1	93.5	93.6	88.2
Real interest rates									
Consumer price index (% change)	6.5	6.8	6.8	7.4	7.8	7.2	7.7	7.5	6.9
GDP deflator (% change)	21.4	21.5	24.0	19.9	20.8	18.5	13.3	11.8	11.0

- a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex B7: Uzbekistan - Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	4282	4031	3923	3983	4909	5938	8661	10836	13249
Net disbursements (US\$m) ^a	-242	-371	-208	-108	128	818	1011	2235	2448
Total debt service (TDS) (US\$m) ^a	787	851	753	692	618	965	1517	1560	1408
Debt and debt service indicators (%)									
TDO/XGS ^b	69.8	57.3	39.6	27.6	37.5	43.1	48.8	52.7	57.5
TDO/GDP	29.9	23.7	17.6	14.3	15.0	15.2	18.8	20.3	23.1
TDS/XGS	12.8	12.1	7.6	4.8	4.7	7.0	8.5	7.6	6.1
Concessional/TDO	37.1	39.2	40.8	44.4	37.0	38.5	39.0	50.0	56.6
IBRD exposure indicators (%)									
IBRD DS/public DS	4.9	5.1	6.7	8.2	10.1	9.7	10.9	10.0	8.6
Preferred creditor DS/public DS (%) ^c	18.3	17.2	17.0	19.2	21.6	27.1	30.5	29.5	26.0
IBRD DS/XGS	0.5	0.5	0.4	0.3	0.4	0.4	0.3	0.2	0.2
IBRD TDO (US\$m) ^d	299	316	317	313	284	249	221	182	141
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	11	26	43	55	83	236	343	583	677

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8(a): Uzbekistan - Operations Portfolio (IBRD/IDA and Grants)

As Date

CAS Annex B8 - Uzbekistan

Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 13

<u>IBRD/IDA</u> *	
Total Disbursed (Active)	130.1
of which has been repaid	6.3
Total Disbursed (Closed)	165.2
of which has been repaid	222.9
Total Disbursed (Active + Closed)	295.3
of which has been repaid	229.1
Total Undisbursed (Active)	512.1
Total Undisbursed (Active + Closed)	512.1

<u>Active Projects</u>		<u>Last PSR</u>				<u>Original Amount in US\$ Millions</u>			<u>Difference Between Expected and Actual Disbursements^{a/}</u>	
Project ID	Project Name	Supervision Rating		Fiscal Year	IBRD	IDA	Undisb.	Orig.	Frm	Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>							
P107845	Basic Educ - Phase Two	MS	MS	2009		28	27.7	8.7		
P112719	Bukhara & Samarkand Sewerage Project	MS	MS	2010		55	53.1	8.7		
P009127	Drainage, Irrig & Wetlands Imprvmt	S	MS	2003	35	25	11.4	8.4		
P118737	Energy Eff - Indust Enterprises	MU	MU	2010		25	26.6	3.3		
P110538	Ferghana Valley Water Resources Mgt	S	MS	2010		65.544	58.3	8.3		
P051370	Health 2	MS	MS	2005		40	3.1	1.2		-0.2
P113349	Health System Improvement Project	S	S	2011		93	93.6			
P109126	Rural Enterprise Support Project II	S	S	2008		67.96	38.6	8.5		
P111760	Syrdarya Water Supply Project	S	S	2011		88	89.8			
P119939	Talimarjan Transmission Project	S	S	2011	110		110.0			
Overall Result					145	487.504	512.1	47.1		-0.2

Annex B8(b): Uzbekistan - IFC Committed and Outstanding Investment Portfolio

(In USD millions)

Commitment FY	Institution	Committed				Outstanding			
		LN	ET	QL + QE	TOTAL	LN	ET	QL + QE	TOTAL
2001	SEF Parvina	-	-	0.09	0.09	-	-	0.09	0.09
2001/ 2007/ 2010/ 2011	SEF Hamkorbank	3.13	2.98	-	6.10	3.13	2.98	-	6.10
1996/ 2001/ 2003/ 2009	Uzbek Leasing	2.01	0.54	-	2.55	1.31	0.54	-	1.85
Total Portfolio		5.14	3.52	0.09	8.74	4.44	3.52	0.09	8.04

As of September 30, 2011

Annex C. Uzbekistan Country Financing Parameters

Date: May 3, 2005

The country financing parameters for Uzbekistan set out below have been approved by the regional Vice president, ECA, and are being posted on the Bank's internal website.

Item	Parameter	Remarks / Explanation
<i>Cost sharing.</i> Limit on the proportion of individual projects that the Bank may finance	Up to 100 %	It is expected that Government financing would continue to be considered on a case-by-case basis, particularly in areas which will require deeper reforms. In sectors where there is a strong level of agreement on basic approaches, and where the Government has adopted comprehensive development strategies e.g., health, education, and municipal services, Bank funding up to 100 percent of costs may be appropriate, although subject to a case by case examination. In other sectors e.g., the irrigation, energy, financial sector, private sector development, financing from the Government would be usually expected.
<i>Recurrent cost financing.</i> Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance	No country level limit on recurrent cost financing	Recurrent cost financing in individual projects would be considered on a case-by-case basis after careful assessment of sustainability, including future budget implications. Overall, World Bank financing of recurrent costs is expected to remain within a modest range.
<i>Local cost financing.</i> Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects	Yes	The criteria for World Bank financing of local costs are met. Therefore, the World Bank may finance local and foreign costs in any proportions as needed for individual projects.
<i>Taxes and duties.</i> Are there any taxes and duties that the Bank would not finance.	The Bank may not finance customs duties, excise taxes and the Road Fund charges on vehicles. These taxes and duties are considered either excessive or relatively non-transparent. The Bank may finance all other taxes.	At the project-level, the Bank would consider whether taxes and duties constitute an excessively high share of project cost. The impact of paying or not paying certain taxes is not expected to be significant since Bank-financed projects are exempt from most taxes. Changes in tax and customs and/or related exemptions could trigger a review of this parameter.