

World Bank Group – Uzbekistan Partnership: Country Program Snapshot



WORLD BANK GROUP

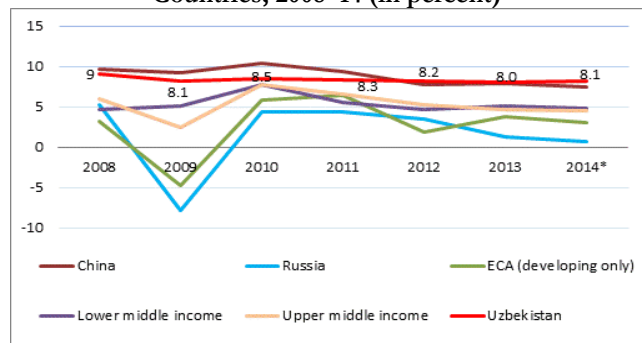
April 2015

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth and External Performance

Despite a generally subdued performance in the developing Europe and Central Asia (ECA) region, Uzbekistan continues to grow strongly. In 2014, output expanded by 8.1 percent, slightly higher than the 8 percent growth rate registered in 2013. With this, real GDP growth averaged 8.3 percent per annum between 2008 and 2014, making Uzbekistan one of the fastest growing economies in the ECA region and among middle-income countries during this period.

Figure 1. GDP Growth in Uzbekistan, its Key Trade Partners, ECA, Lower- and Upper-Middle-Income Countries, 2008–14 (in percent)



Source: Uzbek authorities and World Bank and IMF database.

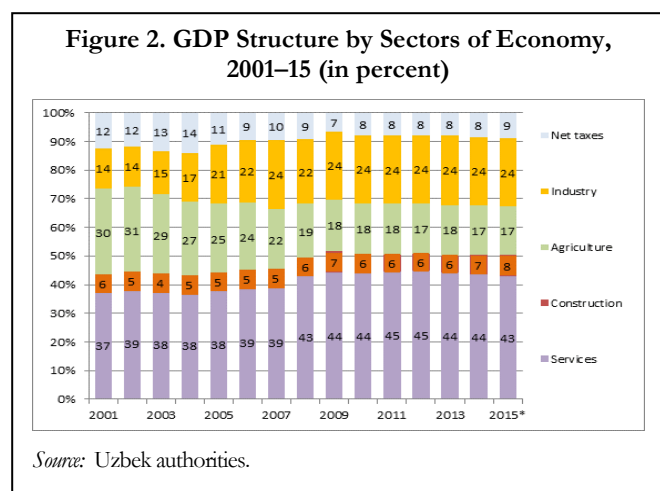
Output performance in 2014 reflects buoyant domestic demand driven by supportive government policies. GDP growth was reflected across all sectors, with construction, services, and agriculture the most dynamic. Construction expanded by 18.3 percent, services by 15.4 percent, agriculture by 6.9 percent, and industry by 5.7 percent. On the demand side, private consumption rose after a 20 percent nominal increase in minimum wages, pensions, and social allowances, ahead of the 6.2 percent official consumer price index (CPI) inflation and the 9 percent inflation estimated by World Bank staff. Net remittances declined by 18.9 percent, i.e., down to 5.1 percent of GDP in 2014 from 6.4 percent of GDP in 2013, due to the slowdown in Russia's economy and the large depreciation of the ruble. Fixed investment grew by 9.6 percent in 2014, with an estimated share in GDP of 24.8 percent, benefiting from lower corporate income tax rates and moderate improvements in the business environment.

GDP growth is expected to be only modestly lower at 7.6 percent in 2015, owing to a weaker external outlook, especially in Russia, the main trading partner. The twin shocks of lower world prices of commodity exports and the deepening recession in Russia are expected to increase government spending to maintain incomes and create jobs for labor migrants returning from Russia. However, even the announced 20 percent nominal increase in minimum wages, pensions, and social allowances, together with tax cuts in 2015, will not be sufficient to offset the projected further decline in remittances, given the recession in Russia that is creating pressure for further ruble depreciation. Growth forecasts for the Eurozone, China, and Russia were revised downward in early 2015. Russia's economy is projected to shrink by 3 percent in 2015, while China's growth will slow to 6.8 percent and the Eurozone's to 1.2 percent. Lower international prices in 2015 for gas (by 16 percent), cotton (by 13 percent), copper and fertilizers (by 5 percent), and gold (by 2 percent) will weigh on export incomes, which, coupled with the decline in external demand from Russia, the Eurozone, and China, will be reflected in lower export and budget revenues. During 2015, growth in agriculture and services is expected to pick up, while industrial growth is expected to dampen, driven by both external (lower demand in trading partners) and domestic factors (e.g., electricity outages due to the slower-than-expected upgrading of infrastructure as well as domestic energy price increases that reflect a partial removal of energy subsidies to keep budget revenue from falling).

Real incomes, including of the bottom 40 percent, will not expand significantly in 2015. This is due to the downside influences of lower remittances, higher unemployment because of returning migrants, and higher inflation pressure from the reduction in energy subsidies and more expensive imports of key consumer goods based on sharply devalued curb market exchange rates in late 2014. Government consumption is projected to expand only moderately in 2015, due to lower fiscal revenues from commodity exports and to measures designed to keep external debt from rising. Import growth is expected to be lower, while uncertainty about foreign direct investment (FDI) inflows has risen due to higher risks and the slow improvement in the business environment, which are projected to hold back overall private investment growth. Commercial banks are exposed to lower export revenues in industry but remain resilient. The outlook is subject to downside risks, in particular, the sharper-than-expected slowing of the economies in Russia, the Eurozone, and China. Accelerating far-reaching structural reforms, especially improving the business environment, enhancing governance, reducing the cost of trade and finance for businesses, and further cutting taxes on firms and

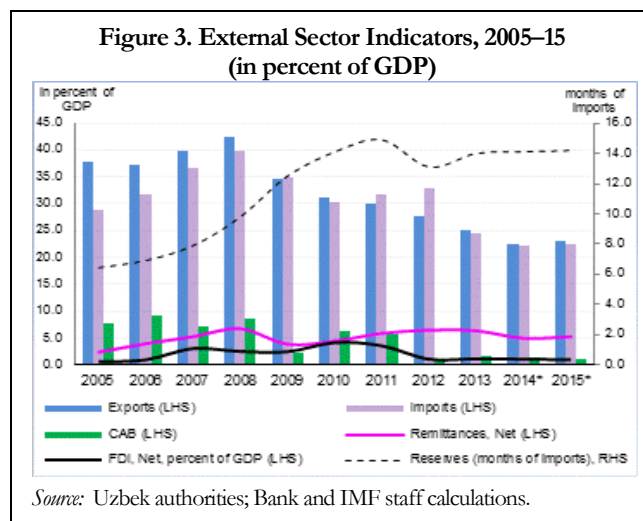
individuals, will continue to reduce poverty and inequality and make growth more inclusive.

The Government's industrialization policies are contributing to changes in the structure of Uzbekistan's economy. While services continued to dominate the economy at 44 percent of GDP in 2014, the share of industry has increased by around 10 percentage points of GDP over the past decade and at 24.1 percent of GDP (figure 2), now exceeds that of agriculture (17.2 percent). However, given the current level of protectionism for some industrial state-controlled enterprises via high import tariffs (the average tariff exceeds 14 percent, the highest in the region), non-tariff barriers to trade (e.g., foreign exchange restrictions), and high energy and fuel subsidies, there are concerns about the sustainability of some industries and their ability to compete successfully in a more open economic environment.

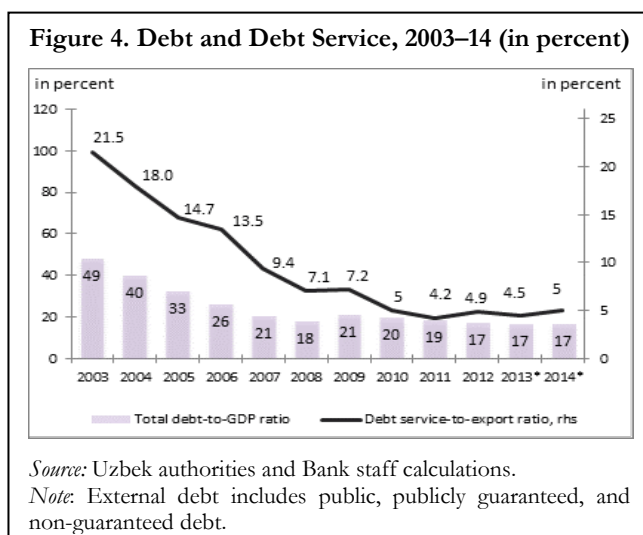


Export performance in 2014 was weaker than in 2013, due to weaker global demand, including from Russia and other Commonwealth of Independent States (CIS) countries, and drops in world commodity prices. Total exports declined by 1.5 percent in 2014, as larger exports of food, chemicals, and gas did not offset the reduced exports of cars, other machinery, and cotton due to lower demand in Russia and other countries. Exports to Russia declined by 18 percent in 2014, including food, cars, and gas. However, some other export items were redirected to China (i.e., gas, food, metals), and exports of textiles, chemicals, and services to other countries increased, without which the total exports would have declined further. (Russia-bound cars were absorbed domestically.) Imports grew by 0.1 percent in 2014 compared with 7.7 percent in 2013. The current account balance surplus declined to 1.6 percent of GDP in 2014 from 1.9 percent in 2013 (figure 3).

On the capital account, the net inflow of foreign direct and portfolio investment declined from 3.2 percent of GDP in 2011 to 1.7 percent in 2012–13 and around 1 percent in 2014. Cumulative FDI inflows since independence remain low in per capita terms, reflecting foreign investors' concerns and the Government's reluctance to open up the economy.

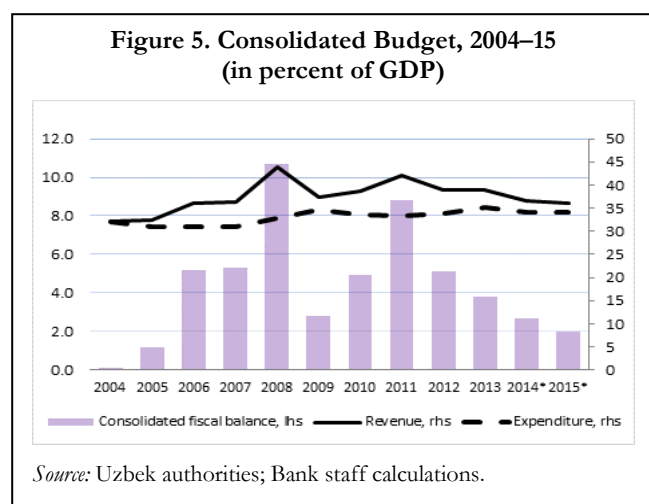


Public and publicly guaranteed debt is low, and debt sustainability is not of concern. Current account surpluses over the past decade have translated into rapidly falling indebtedness, with external debt also declining rapidly from 64 percent of GDP in 2001 to around 17 percent of GDP in 2012–14 (figure 4). External debt has been serviced comfortably, and the debt service ratio was around 5 percent of exports in 2012–14. Uzbekistan remains a net creditor to the world despite its massive capital needs, with foreign assets at more than 14 months of imports of goods and services in 2014.



Fiscal Performance

The consolidated fiscal balance, including the Fund for Reconstruction and Development (FRD), remained in surplus by an estimated 2.6 percent of GDP in 2014. Lower tax revenues (reflecting tax cuts for firms and individuals), together with lower resource fund (FRD)¹ revenue from weaker gold export prices and higher public capital spending, have resulted in a lower overall state budget surplus (including the FRD), estimated to have been 2.6 percent of GDP in 2014, down from an estimated 3.8 percent of GDP in 2013 (figure 5). The US\$47 billion investment program for 2011–15, which the Government adopted to alleviate the impact of the global crisis and to upgrade industry and infrastructure, was in progress in 2014, with co-funding by the FRD. Public capital spending was quite stable at 4.2 percent of GDP in 2013 and was expected to have increased to 4.5 percent of GDP in 2014. Public spending on health at 3.1 percent of GDP in 2014 was much higher than the average 1.7 percent of GDP in lower-middle-income countries. Public spending on education at 7.5 percent of GDP in 2014 was the highest in the Central Asia and Caucasus region and on par with Organisation of Economic Co-operation and Development (OECD) countries; however, the return on these expenditures is unknown, as the quality of education in Uzbekistan is not rated internationally and cannot be compared with other countries.



¹ The state FRD was created in mid-2006 with the main objectives of: (i) accumulating revenue in excess of the established cut-off prices on mineral resources, mainly gold and copper; and (ii) stimulating investment and economic development by extending long-term loans to banks for cofinancing strategic government-selected projects. Since its creation, the FRD had accumulated US\$15 billion in assets by 2014, most of which are managed abroad by the Central Bank of Uzbekistan as part of the international reserves. The remainder is used for domestic lending in foreign exchange of imported capital and intermediary goods under government projects.

Public and publicly guaranteed debt is low, and debt sustainability is not of concern. The state budget and current account surpluses over the past decade have translated into rapidly falling indebtedness, with public and publicly guaranteed debt at around 8 percent of GDP in 2012–14. Domestic public debt was paid down in full in 2012. Given high international reserves, the Government is not expected to borrow domestically in the medium term. Uzbekistan remains a net creditor relative to the rest of the world despite its massive capital needs, with foreign assets at more than 14 months of imports of goods and services in 2014. To finance its 2015 public investment program, the Government is likely to continue borrowing externally, but the total Uzbek external debt-to-GDP ratio at 17 percent in 2014 is projected to increase only slightly.

The Government has pursued a strategy to widen the tax base and reduce the tax burden, as total tax revenues have been falling as a share of GDP. Total tax revenues fell from 26.2 of GDP in 2000 to 21.5 percent of GDP in 2008 and to 20.5 percent of GDP in 2012–13. Further tax reductions continued in 2014, reducing overall tax revenue to 20.1 percent of GDP in an attempt to increase compliance and sustain high economic growth. The Government has been gradually reducing marginal rates on a number of taxes. For the personal income tax, the top rate has been reduced from 40 percent in 2000 to 23 percent in 2014–15, and the tax rate for incomes up to five times the minimum wage was reduced to 7.5 percent in 2014. Starting in 2015, the tax rate for incomes up to the minimum wage is reduced to zero. The corporate profit tax was reduced from 31 percent in 2000 to 8 percent in 2014 and 7.5 percent in 2015, and payroll tax was reduced from 40 percent in 2000 to 25 percent in 2014–15, and further to 15 percent in 2015 for micro- and small firms as well as for agriculture farms. Commercial banks are still subject to a 15 percent rate.

Table 1. Uzbekistan: Key Economic Indicators, 2011–15

| | 2011 | 2012 | 2013 | 2014* | 2015 ^f |
|---|-------|-------|-------|-------|-------------------|
| GDP growth, % | 8.3 | 8.2 | 8.0 | 8.1 | 7.6 |
| GDP per capita, current US\$ | 1,545 | 1,719 | 1,878 | 2,038 | 2,146 |
| Population (mid-year), million | 29.3 | 29.8 | 30.2 | 30.8 | 31.1 |
| Gross investment in fixed capital, % of GDP | 23.5 | 22.8 | 23.2 | 23.3 | 26.1 |
| Inflation (official CPI, eop), % change | 7.3 | 7.0 | 6.8 | 6.2 | 6.3 |
| Current account balance, % of GDP | 5.8 | 1.2 | 1.9 | 1.6 | 0.3 |
| Fiscal balance, % of GDP | 8.8 | 5.1 | 3.8 | 2.6 | 2.0 |
| FDI (net), % of GDP | 3.6 | 1.7 | 1.7 | 1.0 | 1.0 |
| Labor remittances (net), % of GDP | 5.9 | 6.8 | 6.4 | 5.1 | 3.6 |
| External debt, % of GDP | 18.6 | 17.3 | 16.5 | 17.0 | 17.1 |

Source: Uzbek authorities; Bank staff calculations.

Notes: e: preliminary or estimate; f: forecast.

The available fiscal space enables the Government to continue financing fiscal stimulus programs without increasing public debt. Fiscal policy in 2015–16 is likely to remain unchanged, given the further reduction of direct taxes on firms and employees, the increase in indirect taxes on resources, the increasing public investment trend, and a continued focus on social spending.

Monetary Policy

The Central Bank of Uzbekistan (CBU) has been trying to balance support for domestic demand with the need to address inflationary pressures. Given slowing inflation, the CBU cut its key rate to 10 percent in January 2014 from 12 percent in 2013 and further to 9 percent in January 2015. It also reduced the interest rate on its certificates of deposit operations to facilitate liquidity sterilization. Meanwhile, to keep inflation under control, the CBU maintained stricter direct controls over payments and promoted noncash payments. As a result, broad money (M2) growth slowed from 22.5 percent in 2013 to 20 percent in 2014, but credit growth remained strong at around 30 percent.

Despite currency weakening across the region, the CBU in 2014 continued its policy of steady nominal exchange rate depreciation of the som against the U.S. dollar.² The official exchange rate depreciated against the dollar in nominal terms by 9.7 percent on average in 2014, slightly slower than the 11 percent in 2013 and the 10.5 percent in 2012. The curb market exchange rate depreciated by 11.7 percent in 2014 and by 26 percent in the five months from October 2014 to February 2015, reflecting the Russian ruble depreciation. The likelihood of large official currency depreciation is mitigated by robust inflows of export revenues, including from gas, as prices for Uzbek gas exports have not been affected by the decline in oil prices.

Despite price controls, moderate inflation persists. The official CPI inflation rate was 6.1 percent in December 2014, down from 6.8 percent in December 2013. The main sources of consumer inflation include administrative price increases on utilities, transport services, and some foods; expectations of a future gradual depreciation of the national currency; the monopolization of the wholesale import trade; and the sizable liquidity injections generated from the mandatory surrender requirements on exports. In

² The exchange rate with the dollar and the euro is determined on the basis of interbank trading sessions; the exchange rate regime is a “managed float,” i.e., exchange rates fluctuate from day to day, but the CBU influences them by buying and selling currencies.

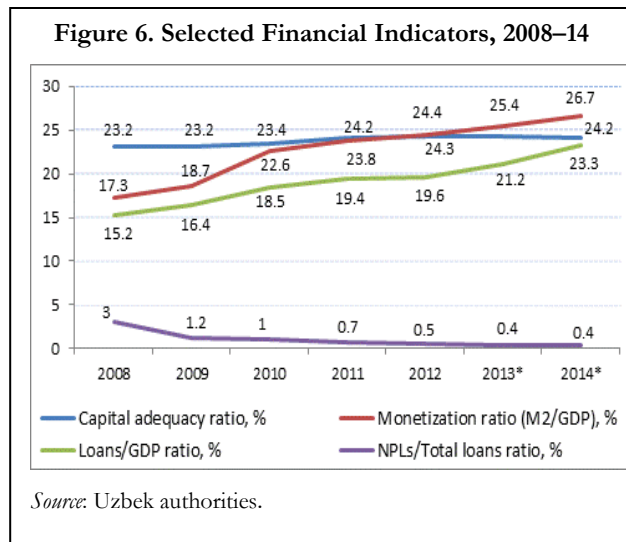
response to inflation pressures, the CBU continues monetary tightening by absorbing excess liquidity, exercising stricter controls over payments, promoting noncash payments via more debit cards issued to individuals, encouraging self-sufficiency in food by increasing food production and improving rural infrastructure, and reducing excise taxes on some imported food (e.g., vegetable oil).

Financial Sector

Although the banking sector’s exposure to global risks is limited, the sector has been largely ineffective in deepening financial intermediation. Uzbek banks have limited exposure to foreign bank funding, making direct exposure to a deterioration of the Eurozone insignificant. Domestic funding accounts for the bulk of the loan stock, reducing exposure to exchange rate fluctuations. However, a deceleration of global growth and trade could place pressures on the Uzbek financial system as its export-oriented loan portfolio deteriorates, Government spending and support wane, and remittances (a source of considerable non-interest income) drop. Robust economic growth and large capital injections by the Government after the global crisis increased the resilience to shocks. In 2014, the total assets of Uzbekistan’s commercial banks increased by 28 percent, and total banking capital grew by 26 percent. The banking sector is growing rapidly and enjoys a high capital adequacy ratio, which was reportedly at 24 percent in 2014 (figure 6), despite the considerable level of financing to large government projects and the state-directed lending policy, with often below-market rates, thus posing asset quality risks.

The rapid growth of the banking sector’s loan book has not been matched by capital injections until recently. At the same time, the nonperforming loan (NPL) level (and reserves) has been stable, pointing to possible problems in the future, as it is a traditionally trailing indicator (together with forbearance in loan classification, allowing the underreporting of NPLs). State dominance of the banking sector in the financial system suggests that any systemic crisis is likely to be manageable, and the state has sufficient reserves to support the banks in the event of a crisis. The concentration and the quality of banking assets also remain serious concerns, as are the sector’s continued receipt of public funding. The regulatory framework is not on par with international standards, particularly regarding capital adequacy, risk management, and corporate governance. Recently, the CBU has begun upgrading the regulatory framework, including standards for capital and liquidity. However, the CBU’s ratings to

banks diverge significantly from external ratings agencies, and the level of NPLs is also disputed. Moody's estimates that NPLs will remain in the range of 6–7 percent in the coming year and views the loan-loss reserves as inadequate. Nevertheless, the Moody's report concludes that the system in 2013–14 was stable and that banks' capital buffers are adequate to absorb the expected credit losses.



Financial sector reforms are critical for sustained growth. The main challenges include the need to relax and eliminate restrictions on cash and foreign exchange transactions and to phase out the practice of directed lending. In the absence of these reforms, other measures (improved supervision, risk management, credit infrastructure, credit information systems, and non-bank financial institutions) may not produce the desired results, and the banking sector may not be able to efficiently intermediate and support economic activity and may be adversely affected by a larger economic shock. Similarly, banks' prohibitive lending requirements (for example, 120 percent collateralization) further obstruct the growth potential of micro and small enterprises, which in 2014 accounted for 56 percent of GDP, and curtail the effectiveness of support programs aimed at increasing access to finance in the country. In terms of development, the microfinance industry has the potential to expand both in terms of additional branches and slightly higher loan limits; non-banks, such as the insurance sector, leasing, and capital markets, though underdeveloped, also have some potential, provided their solvency is well regulated and the flexibility of the industry's cost and profit parameters is increased.

Poverty and Social Protection

Poverty declined from 27.5 percent of the population in 2001 to 14.1 percent in 2013 and is expected to have

declined further to 13.7 percent in 2014.³ These declines were due to rapid per capita economic growth, sustained annual increases in salaries and remittances, incomes from micro and small businesses, and the Government's targeted support programs. Net remittances from labor migrants have helped many families in Uzbekistan keep poverty at bay.

However, despite the accelerated decline in poverty since 2005, the elasticity of poverty reduction to GDP growth remains relatively low. In 2002–13, per capita GDP grew 197 percent and poverty declined by 48.7 percent. A 1 percent increase in per capita GDP in Uzbekistan is associated with a 0.5 percent decrease in the poverty rate on average, which is lower than the average estimate for developing countries (where a 1 percent increase in per capita GDP brings a 0.6–3.5 percent decrease in the poverty rate). There are several potential explanations for this: (1) low productivity growth in labor-intensive agriculture, which still employs one-fourth of the population and most of the poor but is subject to numerous implicit taxes and restrictions on exports and economic activity; (2) considerable informality in the labor market; (3) few working adults per family; and (4) regional divergences (richer regions grow faster). When the Government endorsed the Millennium Development Goals for 2011–15, its main goals were to halve poverty (compared to the 2001 level) and halve the number of underweight children under 5. This translates into a targeted reduction of the national poverty rate to 13.5 percent of the population by 2015, which seems achievable if the Russian Government does not continue with its plan to send more than a third of Uzbek labor migrants in Russia back to Uzbekistan.

The low elasticity of poverty with respect to income growth is all the more surprising as income inequality has also declined. Income has been distributed more equitably over time, as indicated by the Gini coefficient, which reportedly fell from 0.39 in 2001 to 0.30 in 2012. Another income inequality measure—the decile dispersion ratio of income difference—was 8.3 in 2011 and 8.0 in 2012–13.⁴ School enrollment and access to electricity and

³ As measured by the Uzbekistan national poverty line of minimum food consumption equivalent to 2,100 kilocalories per person per day. The State Statistics Committee of Uzbekistan conducts regular household budget surveys (HBSs), the results of which are not available to the public.

⁴ "Welfare Improvement Strategy of Uzbekistan for 2013–2015" (Tashkent: Government of Uzbekistan, 2013), p.137; and remarks by the President of Uzbekistan, January 18, 2014, on the results of socioeconomic development in 2013 and the main economic priorities for 2014. The decile dispersion ratio expresses the income of the richest as a multiple of that of the poorest: the ratio of the average income of the richest 10 percent of the population divided by the average income of the bottom 10 percent. The decile dispersion ratio of 8 in Uzbekistan means that the rich on average make eight times as much as the poor.

natural gas networks are universal across the country, and access to safe water is universal in cities and available to 85 percent of the population in rural areas. However, with a fourfold difference between domestic and export prices for gas, deteriorating networks and regular disruptions of electricity (generated mainly by gas power stations), the rationing of gas in rural areas due to gas reorientation for exports, and the low productivity growth in labor-intensive agriculture, it seems clear that critical reforms are needed in these areas to ensure equality of opportunity for access to infrastructure and for generating incomes across all regions of the country.

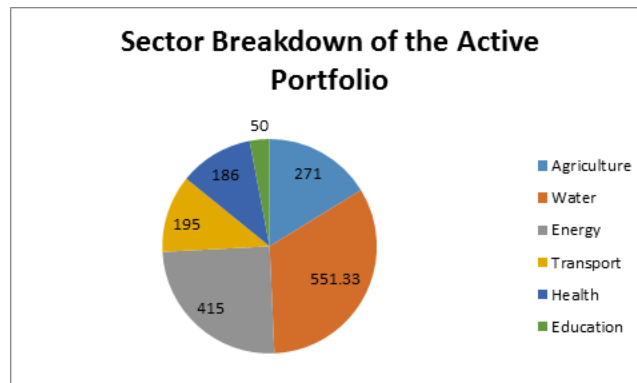
The adoption of the Government’s “Welfare Improvement Strategy” for 2013–15 will contribute to poverty reduction, but the targeting of benefits needs to be improved. The new national poverty reduction strategy embraces all means-tested public social programs, providing allowances and benefits to targeted groups of the poor, vulnerable groups, and those lacking services through local neighborhood communities (*maballas*). Every year, the Government adopts additional social programs targeted to particular vulnerable groups in line with its thematic priorities, for example, “the Year of Family” (2012), “the Year of Prosperity” (2013), “the Year of Healthy Child” (2014), and “the Year of Support to Elders” (2015). Additional pro-poor actions are taken every year, such as additional increases in wages, pensions, and benefits; access to micro-lending, especially for women; the provision of housing for orphaned children and social assistance to single elder citizens in need, as well as job creation in the public works, construction, and services sectors; the provision of cattle for the poor; and the outsourcing of some apparel production from large enterprises to households in rural areas. The Government is also increasing the provision of health care and basic education in rural areas by introducing per capita financing in rural primary health care, schools, and vocational colleges. However, the targeting of social protection programs needs to be improved, as there is considerable discretion and arbitrariness at the local level (*maballas*) on the distribution of social benefits to the poor, and existing monitoring and evaluation systems are not always applied effectively to guide policies.

THE WORLD BANK PROGRAM IN UZBEKISTAN

Uzbekistan joined the World Bank in 1992. Since then, the Bank has provided commitments for 27 projects financed by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) and 30 grants provided

under technical assistance programs. Of these, 16 projects and 28 grants had been completed as of March 2015. The Bank’s commitments as of March 2014 were US\$1,040 million, including a Global Environment Facility (GEF) project.

Figure 7. Sector Breakdown of the Active Portfolio



Impact on the Ground

The results of country program implementation show what client countries and the World Bank can achieve together as partners to improve people’s lives and make a difference. The list of ongoing projects is in table 2. Key accomplishments include:

- The World Bank has been helping Uzbekistan to establish a health care system that is accessible, affordable, and efficient. For example, a Bank project has helped improve the quality of primary health care in almost all regions of Uzbekistan. Also, the Bank has been financing the training of medical professionals and advising on health care finance.
- The Bank has been supporting Uzbekistan’s efforts to implement agricultural reforms under the *Rural Enterprise Restructuring Project – Phase 2*. The project is providing financial and technical support to improve irrigation and drainage on 95,500 hectares of land, and 415 farmers and food-processing small and medium-sized enterprises (SMEs) have obtained US\$35 million in credit for machinery, poultry, fishery, tree crops, processing, and other rural development activities.
- Some 2 million rural people in the western part of Uzbekistan and about 650,000 people in Bukhara and Samarkand now have access to a reliable water supply due to the Bank’s water supply and sanitation projects. The citizens of Bukhara and Samarkand expect that the World Bank’s sewerage project will mitigate the environmental impact from wastewater pollution and improve the efficiency and sustainability of wastewater management in these cities.

- The Bank’s advice helped to create an adequate policy environment and to improve institutional capacity for corporate financial reporting in the banking sector in line with accepted international practice and based on the policy recommendations

Table 2. Active Loans/Credit Projects, FY15

| | Projects | Commitments |
|-----|--|---------------------|
| | <i>Loan/Credit Funded</i> | \$US million |
| 1. | Rural Enterprise Support Project, Phase 2 (IDA) | 108.0 |
| 2. | Horticulture development Project (IBRD) | 150.00 |
| 3. | South Karakalpakstan Water Resource Management Improvement Project (DA/IBRD) | 260.79 |
| 4. | Ferghana Water Resources Management Project (IDA) | 65.5 |
| 5. | Bukhara and Samarkand Sewerage Project (IDA) | 55.0 |
| 6. | Syr Darya Water Supply Project (IDA) | 88.0 |
| 7. | Alat & Karakul Water Supply Project (IDA) | 82.0 |
| 8. | Energy Efficiency Facility for Industrial Enterprises Project (IDA) | 125.0 |
| 9. | Talimarjan Transmission Project (IBRD) | 110.0 |
| 10. | Advanced Electricity Metering Project (IBRD) | 180.0 |
| 11. | Pap-Angren Railway Project (IBRD) | 195.0 |
| 12. | Health System Improvement Project (IDA) – Health 3 | 186.0 |
| | <i>Grant Funded</i> | |
| 13. | Sustainable Agriculture and Climate Change Mitigation Project (GEF) | 12.7 |
| 14. | Improving Pre-School and Secondary School Education Project (GPE) | 49.9 |
| | Total Commitments | 1,667.89 |

(Accounting and Auditing Reports on the Observance of Standards and Codes [A&A ROSC]).

- Advisory services provided by the International Finance Corporation (IFC) helped to develop the leasing and housing finance sectors in line with international best practices, with the value of the lease portfolio increasing from US\$144 million in 2006 to over US\$720 million in 2013.

The Country Partnership Strategy (CPS) for Uzbekistan, approved in November 2011, provides the framework for World Bank Group assistance to Uzbekistan between 2012 and 2015. The new strategy

proposes a program linked to Uzbekistan’s development vision to reach high-middle-income status by mid-century.

In support of the Government’s objective to diversify the country’s economy, the CPS is designed to support the implementation of infrastructure efficiency, economic competitiveness, diversification, and social inclusion elements as part of the Government’s medium-term development strategy. The new CPS financial envelope is US\$1.35 billion for approximately 15 new projects.

Technical assistance, advice, international expertise, and experience. The Analytical and Advisory Program (AAA) is carried out with the Government and a broad range of stakeholders.

Economic and Sector Work (ESW) for key sectors, including power, energy efficiency, horticulture, transport, education, private sector development, and public expenditure management, has been delivered. This work now serves as an analytical foundation for the preparation of the follow-on lending operations for FY14–16, thus demonstrating the best practices of the Bank’s business model of synchronizing knowledge and financial contributions. Another five sector studies (in irrigation, education, social protection, and land administration) are currently under preparation. There is also the high-level joint visioning exercise, “Uzbekistan Vision 2030.”

The Bank also has a technical assistance portfolio consisting of five activities in the areas of financial, private, and public sector development, such as: *ICT* Development, Strengthening the Regulatory and Supervisory Framework, and Improve Public Procurement Outcomes, as well as regional technical assistance on the water, energy, irrigation, governance, and water supply areas.

Macroeconomics

Through the “Uzbekistan Vision 2030” activity, the World Bank Group is having a productive dialogue on the long-term development agenda of Uzbekistan. Uzbekistan aspires to reach high-middle-income status by mid-century, and the purpose of the Vision is to develop roadmaps to achieve this goal. This cross-sector activity is undertaken in close cooperation with the Uzbek authorities, think tanks, and the United Nations Development Programme (UNDP). It will analyze the potential sources of growth that would put

Uzbekistan on a trajectory of economic, social, and environmental sustainability. The multi-sectoral activity will also identify the policy and institutional reforms on macroeconomic management and trade policy, infrastructure and connectivity, business environment and enterprise reform, labor markets, water, and energy that will have the biggest impact on growth and job creation, while mitigating risks. In addition to the final report, sectoral chapters as well as knowledge-sharing workshops are informing the Bank's policy dialogue with Uzbek authorities and bringing good international experience to a number of issues, including the country's comparative advantage, competitiveness, diversification and export promotion, human development, and selected structural reform issues.

The Bank is also actively monitoring economic developments in Uzbekistan. This includes preparation of the biannual economic report as well as periodic overviews and thematic assessments. In addition, the Bank team maintains a policy dialogue with the authorities through the Country Policy and Institutional Assessment on a number of issues, including the business environment, the quality of budgetary and financial management, and so forth.

HUMAN DEVELOPMENT

Health



Health outcomes in Uzbekistan are commensurate with its socioeconomic development level as a lower-middle-income country. The Government is in the midst of major

health care reforms that focus on strengthening primary health care (PHC), modernizing the health service networks, and improving the efficiency of health spending. The ultimate goal is to improve the key health indicators of the population, and while important steps have been taken toward this goal, further progress is still needed.

Life expectancy at birth trended upward from 66 in 2003 to 69 years in 2012, according to the World Health Organization (WHO). Despite this improvement, Uzbekistan's health care system is struggling to catch up with the epidemiological changes in morbidity and mortality patterns in recent years. Also according to WHO data, noncommunicable diseases (NCDs)

accounted for approximately 79 percent of all deaths in Uzbekistan in 2012. Cardiovascular diseases were the most common cause of death, accounting for 54 percent of age-standardized mortality. Although NCDs are the greatest problem, Uzbekistan still has remaining challenges related to maternal and child health outcomes. In response, the Government has initiated several policies and programs, mobilizing both internal and external resources, with a resulting decline in infant mortality. According to WHO, under five and maternal mortality rates were 40 (as of 2012) and 36 (as of 2013), respectively.

The World Bank has been providing strong support for the health sector of Uzbekistan. Reforms in primary health care have been supported through two investment projects, *Health I* and *Health II*, which covered years 1998–2011. These projects improved the quality and cost effectiveness of primary health care services; established 10-month doctor retraining courses on general practice and family medicine; and strengthened the capacity of the public health system.

The *Health III Project* was launched in 2012 and focuses on enhancing secondary health care services by: investing in diagnostic and treatment equipment in hospitals at the district level; improving clinical service management of priority NCDs; and improving hospital financing. The World Bank Board approved Additional Financing for US\$93 million on March 7, 2013, and the Financing Agreement was signed on July 18, 2013. The Additional Financing is set to scale up the activities initiated under the *Health III Project* and ensure that all *rayon* (district) medical unions and selected city medical unions in the country are supported by the project in line with the Government's hospital reform program.

Education



Uzbekistan's education system outperforms peer countries in the lower-middle-income group.

Public spending on education is high; pupil-teacher ratios in Uzbekistan are closer to those found in rich countries, and gender parity is nearly achieved in primary education. Currently, an estimated 35 percent of the national budget goes to education expenditures.

Nine-year general secondary education in Uzbekistan is compulsory and free. It is divided into primary (grades 1–4) and secondary (grades 5–9)

education. Preschool education is provided to children until they are aged six–seven at state or private preschool educational establishments, and also within the family. In 2012, Uzbekistan took a substantial step forward in planning its education sector by preparing the Education Sector Plan (ESP) for 2013–17, which was part of the process of becoming a member of the Global Partnership for Education (GPE). The ESP derives from the Welfare Improvement Strategy (WIS) of 2013–15, which is the Government’s second national poverty reduction strategy and is aimed at supporting sustainable growth, employment, health, and education. The ESP identifies eight specific strategic areas that have relevance for all subsectors of the education system. The intended outcome for preschool education is to ensure that children’s health and personality develop properly in preparation for learning in school. For general secondary education, the ESP supports students in acquiring the general knowledge, independent thinking, and organizational skills needed for successful further progression in the education system.

World Bank involvement in Uzbekistan’s education sector started with the two-phased *Basic Education Project* that covers 2007–14. The project supported activities to improve learning and teaching conditions in general secondary schools and preschools located in poor rural areas and also improve the efficiency, management, and monitoring capacity of the sector. The project had significant achievements in the areas of assessing student learning, preparing for new teacher training, activating school boards, and especially implementing per capita financing. It has been proposed that experts from Uzbekistan could share their successful experience in implementing per capita financing with other governments.

In 2012, at the request of the Government of Uzbekistan, the World Bank started to explore options for partnership in the higher education sector. In 2013, the Bank prepared an analytical study of the higher education sector in close cooperation with the Ministry of Higher and Secondary Specialized Education. The report, “Uzbekistan: Modernizing Tertiary Education,” was published in 2014. The analytical study focuses on measures to improve the quality and relevance of the higher education system to meet the needs of a rapidly modernizing economy. The Bank has carried out an exploratory dialogue on preparing a project to support higher education that would focus on improving quality assurance processes at higher education institutions and at system levels and on fostering linkages with industry and foreign universities.

In January 2015, the *Improving Pre-Primary and General Secondary Education Project* became effective. The Development Objectives of this project are to increase the access of children aged three–six to quality early childhood care and education in rural preprimary institutions and to improve conditions for better learning outcomes for students in rural general educational secondary schools. This project, whose closing date is January 31, 2018, is financed by a GPE grant of US\$49.9 million, plus US\$4.2 million from the Government of Uzbekistan in the form of investment financing. The project is organized around three components that relate to the following key dimension of investment: access to quality early childhood education opportunities and learning conditions for students in general secondary education. It finances technical assistance to support the development of flexible forms of early childhood care and education service provision, which would include a half-day year-round school readiness program for children aged five–six, and early literacy promotion activities targeting families with children aged three–six. It also finances the improvement of existing learning conditions in rural general educational secondary schools by improving the training system for teachers and school managers and by increasing the availability of adequate equipment and teaching and learning materials.

Agriculture



The agriculture sector plays an important role in Uzbekistan’s economy and contributed over 17 percent of the national GDP and 26 percent of employment in 2014. More importantly, about 49 percent of the

population live in rural areas and depend on agriculture and related activities for their livelihoods. The country’s agricultural systems have gone through significant structural changes that resulted in a reduction in total agricultural output value from 25.0 percent (2005) to 17 percent (2014) of the annual GDP. At the same time, with the implementation of land distribution and privatization initiatives, the number of households in agriculture increased and crop diversification was introduced. Structural changes to the land tenure system following the restructuring of large collective and state farms have resulted in the formation of private farms and the expansion of small household plots. They are now responsible for much of the growth in agricultural

output, with strong productivity gains leading to increased household incomes.

A large area of land is used for agriculture in Uzbekistan, with natural pastures occupying 40 percent of the country and rain-fed and irrigated cropland accounting for an additional 12 percent (see figure 8). Due to the arid conditions, more than 85 percent of Uzbekistan’s cropland is irrigated, an area that comprises approximately 10 percent of the total land area of the country. The most important crops are cotton and wheat, and significant other products include fruits (apples, apricots, peaches, and berries), vegetables (cucumbers, tomatoes, and potatoes), milk, silk, and livestock.

Figure 8. Land Use in Uzbekistan



The CPS 2012–15 supports selected value chains in agriculture and livestock by continuing to provide financing with a particular focus on non-cotton-related activities. In addition, it supported the formulation of a horticultural strategy (FY13), paving the way for the proposed horticultural project (FY14). In order to achieve the strategic goals, the Bank and the Government joined efforts to implement a US\$74.55 million *Drainage, Irrigation and Wetlands Improvement Phase-I Project*, a US\$107.96 million *Rural Enterprise Support Phase-II Project*, a US\$81.85 million *Fergana Valley Water Resources Management Phase-I Project*, and a US\$12.7 million *Sustainable Agriculture and Climate Change Mitigation Project (GEF)*, and they are currently preparing the proposed US\$150 million *Horticulture Development Project* and US\$260 million *South Karakalpakstan Integrated Water Resources Management Project*.

A US\$12.699 million GEF grant approved in 2013 supports the *Sustainable Agriculture and Climate Change Mitigation Project*. This GEF grant complements the ongoing second phase of the *Rural Enterprise Support Project*. It promotes the introduction of renewable energy and energy-efficiency technologies of relevance to agribusinesses and farms and strengthens the capacity for

improving degraded irrigated land and water conservation in the selected regions. The Bank-financed projects are also designed to improve agricultural production in areas affected by waterlogging and to reduce damage to housing and infrastructure from rising groundwater levels and salinity in the project-covered areas.

Energy

The country is rich in energy-producing resources.

It has about 1.1 trillion cubic meters of proven natural gas reserves and 590 million barrels of oil reserves, as well as 3 billion tons of coal reserves. The power sector of Uzbekistan is a vertically integrated monopoly. Uzbekenergo is the principal power sector utility, a state-owned holding consisting of 54 companies. Uzbekenergo operates the power generation sector (seven thermal power plants, three heat and power plants, and 28 hydropower plants), the power transmission network, power distribution and supply (through 14 subsidiaries), and coal sector and auxiliary service companies (design institutes and service companies).



The Uzbek power network is part of the larger Central Asian Power System (CAPS), which is coordinated through a central dispatch coordination center located in

Tashkent. In the past, the CAPS encompassed the five Central Asian countries, but it is currently operating with only three: the Kyrgyz Republic, Kazakhstan, and Uzbekistan. The Uzbekenergo-owned and operated power transmission network has 1,850 kilometers of 500 kilovolt (kV) lines, 6,200 kilometers of 220 kV lines, and 15,300 kilometers of 110 kV lines. The transmission network is interconnected with the neighboring countries through 220 kV and 500 kV transmission lines.

Uzbekistan ranks 167th among 183 countries on the getting electricity indicator, according to the *Doing Business 2013* report prepared by the World Bank and IFC. This indicator assesses all the procedures required for a business to obtain a permanent electricity connection and supply for a standardized warehouse. Recognizing the reliable and stable access to power supply as a key factor for business development, the Government has committed to achieving the following strategic objectives in the power sector: (a) expanding and modernizing the power system to provide a reliable electricity supply to end-users; (b) ensuring

Uzbekenergo's financial sustainability through developing its institutional capacity; (c) improving efficiency through the entire chain of power delivery from generation to distribution, given the high energy intensity of the economy; (d) reducing the environmental footprint of the energy sector; and (e) developing opportunities for exporting power to other countries, both in the region and in South Asia.

In order to achieve the above objectives, the Government of Uzbekistan has undertaken several steps. These include: (a) approving an investment program that consists of 37 projects to modernize and expand the Uzbek power sector; (b) allowing periodic tariff revisions and support to Uzbekenergo for implementing the investment program and increasing its exposure to international financial institutions to help develop its institutional capacity; (c) mandating energy-intensive industries to improve procedural efficiency, using the most efficient technology; (d) assessing and developing renewable energy potential; and (e) maintaining a commitment to improve energy and revenue accountability as well as data and information on the power sector.

The Bank's cooperation with Uzbekistan in the energy sector started in 2010 through the establishment of the US\$25 million *Energy Efficiency Facility for Industrial Enterprises*, aiming to improve the energy efficiency of industrial enterprises and establish mechanisms to finance energy-efficiency projects; the US\$110 million *Talimarjan Transmission Project*, aiming to improve the reliability of the electricity supply to residential and business consumers in southwest Uzbekistan and strengthen the power transmission network; and the US\$180 million *Advanced Electricity Metering Project*, focused on reducing commercial losses in Uzbekenergo's three regional power distribution companies, Tashkent city, and the oblasts (regions) of Tashkent and Syrdarya, by improving their metering and billing infrastructure and their commercial management systems. In 2013, the Bank provided Additional Financing to the *Energy Efficiency Facility for Industrial Enterprises Project* in the amount of US\$100 million and started preparation of new operations, the *District Heating Energy Efficiency Project*, aiming to rehabilitate the heat supply in the cities of Andijan, Chirchick, and Tashkent, and the *Modernization of the Electricity Distribution Systems* in Tashkent city and the oblasts of Tashkent and Syrdarya.

Several AAA products were also prepared during the cooperation period. These include *Uzbekistan Energy Sector Vulnerability to Climate Change* (2012), *Uzbekistan Power Sector Note* (2012), and the

Sourcebook for Strategic Energy Efficiency Development in Industry (2013).

Water Supply and Sanitation



The infrastructure situation in Uzbekistan is strongly influenced by the legacy of Soviet central planning. The Government of Uzbekistan has been steadfast in assigning priority to the water sector, and public capital investments in the sector have never dropped. The portfolio of public borrowing for water

supply and sanitation projects and grant funds during 1995–2014 amounted to US\$344.1 million, the largest for any country in Central Asia.

The continuing deterioration in the delivery of basic municipal services has created serious public health risks and carries high economic costs for the population. Improving the quality and coverage of water supply services is essential to protecting public health, raising living standards, and achieving the ambitious Millennium Development Goal target “to halve by 2015, the proportion of urban and rural population, which lacks access to safe drinking water and adequate sanitation.”

The World Bank has been active in the sector since the early 1990s, mainly via support to the Aral Sea recovery program, including the recently completed *Rural Water Supply and Sanitation Project* for Khorezm oblast and the Republic of Karakalpakstan (US\$75 million). The US\$40 million *Bukhara and Samarkand Water Supply Project* (BSWS) has been completed, and the *Bukhara and Samarkand Sewerage Project* (US\$55 million) and the *Syrdarya Water Supply Project* (US\$88 million) have been under implementation since April 1, 2010 and January 14, 2012, respectively. The *Alat and Karakul Water Supply Project* (US\$82 million) was approved by the Board on December 13, 2012, and became effective on February 13, 2014.

The implementation of the *Bukhara and Samarkand Water Supply Project* increased access to a reliable water supply to 98 percent of the population in the project areas. It also resulted in the replacement of 114.4 kilometers of mains in Bukhara and 130.1 kilometers in Samarkand, and the development of new customer database, billing, and accounting programs in these two cities. Water quality has improved in the

project areas, as less than 5 percent of tested water samples failed chlorine residual standards in Bukhara, and 0 percent did so in Samarkand. In addition, non-revenue water (water produced/supplied to the system and “lost” before it reaches the customer) has decreased to 31.5 percent in Bukhara and 36.5 percent in Samarkand.

The current CPS includes ongoing work designed to strengthen water sector governance and capacity via studies of the financial and institutional aspects of water supply and sanitation. It also envisages lending for new water supply and sewerage projects.

Transport

Uzbekistan’s dynamic economy requires a reliable transportation system. The transport sector accounted for 9 percent of GDP and 4 percent of employment in Uzbekistan in 2013. As much as 47 percent more freight and 73 percent more passengers were transported in 2011 compared to 2005. To support this growth, Uzbekistan seeks to develop a transport system both in scope and quality to facilitate the development of the economy while ensuring that the improvements are undertaken in a sustainable manner.

Roads are the dominant mode of transportation in Uzbekistan, accounting for about 90 percent of total market share, and are critical to achieving these objectives. Currently, the road network carries around 60,000 tons-kilometer per square kilometer, which is four and two times higher than Azerbaijan and Kazakhstan, respectively. Major transport corridors connect Uzbekistan to the Russian Federation in the north, the Middle East and South Asia in the south, the Caucasus and Europe in the west, and China in the east. The total length of the roads network reaches 185,000 kilometers, out of which 42,530 are classified as primary roads and consist of international (3,626 kilometers), national (16,909 kilometers), and regional or local (21,995 kilometers) roads.

Railways play an important role in freight transport and retain a large share of the long-distance passenger transport market in Uzbekistan. The railway network is comprised of 4,227.2 kilometers of railway lines, of which 392 kilometers (9 percent of the network) are double lines and 674 kilometers (16 percent of the network) are electrified. It handles 120 kilometer per hour (kph) trains on most sections. The network is an important link in the transport corridors between west and east and between north and south connecting Europe to Asia. The Transport Corridor Europe–

Caucasus–Asia (TRACECA) and three of the six Central Asia Regional Economic Cooperation (CAREC) corridors cross through Uzbekistan.

Following the issuance of a Transport Sector Policy Note in 2011, World Bank involvement in Uzbekistan’s transport sector began in 2013, launching two projects:

1. The US\$1,709 million *Pap-Angren Railway Project*, supporting Uzbekistan in building a single 124 kilometer track rail link between Angren and Pap, including a 19.1 kilometer rail tunnel through the Kamchik Pass. (The Kamchik pass is of vital importance to Uzbekistan, as it represents an archetypal transport link and is the only route connecting the Ferghana Valley to the capital Tashkent and the rest of Uzbekistan). The project will also support Uzbekenergo in the reconstruction of the Obihayot power station and the construction of a new power distribution line so that the new railway will have a reliable power supply.
2. The proposed US\$240 million *Regional Roads Development Project* to rehabilitate around 400 kilometers of regional roads in the Tashkent, Andijan, Ferghana, and Namangan regions of Uzbekistan. The project aims to develop a framework program for regional road asset management, reduce road user costs, and improve road safety on the project roads.

Private and Financial Sector Development

The collaboration with the Government of Uzbekistan on private and financial sector development is transitioning to a more integrated, strategic, and programmatic dialogue on the identification of existing barriers to a conducive business environment. Over the past year, the World Bank has been collaborating with the authorities on the identification of bottlenecks in the business environment to inform policy options that support private sector growth and economic diversification. Leveraging the previous year’s discrete tasks with multiple government agencies, the Bank is aiming to expand the scope of the dialogue with the authorities to include the broad identification of impediments to private sector growth beyond *Doing Business*, and the development of a supportive financial sector.

The World Bank is aiming to engage the authorities in the preparation of a long-term development strategy. In support of the Government’s Vision 2030 initiative, the World Bank will be providing broad policy

recommendations to remove obstacles in the business environment, ranging from licensing and permits reform to improving access to finance for enterprises. This work aims to enhance the scope and depth of results-oriented reforms in a programmatic manner. The program for FY13 included specific recommendations for the development, on a pilot basis, of one of the priority sectors identified by the Government (i.e., the tourism sector).

The World Bank has developed a good dialogue with the CBU through technical assistance on strengthening bank supervision and regulation, and financial reporting and auditing. The Bank, through its budget and FIRST Initiative funding, has been supporting two areas of focus: (i) the improvement and implementation of select elements of the bank regulatory framework; and (ii) the revision and implementation of a more risk-oriented bank assessment and a prompt remedial action framework. At the same time, the Bank is also implementing a FIRST Initiative project on financial reporting and auditing, with its main goal to create an adequate policy environment and improve institutional capacity for financial reporting in the banking sector, in line with accepted international practice.

International Finance Corporation

The IFC in Uzbekistan operates in line with the World Bank Group CPS and is mainly focused on private sector development through a combined investment and advisory approach. To date, IFC has committed US\$130 million from its own sources to support the private sector in Uzbekistan. IFC's current committed portfolio is US\$38.5 million, which includes, inter alia, equity investments and SME credit lines, as well as a Trade Finance Facility in a leading regional private bank (Hamkorbank) and in the second largest bank in the country (Asaka Bank). Trade finance has accounted for about 70 percent of IFC total financing provided since the beginning of CPS implementation (FY12–14). During the first two years of the current CPS period, the micro, small, and medium-sized enterprise (MSME) loan portfolio of IFC client banks grew from about US\$120 million to US\$209 million, reaching nearly 10,300 MSMEs.

In addition to investments, IFC continues to implement the *Financial Infrastructure Advisory Services Project (ACAFI)*, which is a part of the regional program of financial infrastructure development in Central Asia (Kyrgyz Republic, Tajikistan, and Uzbekistan) and Azerbaijan. The ACAFI project is being implemented in partnership with the Government of

Switzerland. In Uzbekistan, the project provided assistance in the development and adoption of the Law on the Sharing of Credit Information and subsequent legislation. As a result of the adoption of this law, 30 Uzbek banks and the Uzbekistan Banking Association established a credit bureau in March 2012 with a total charter capital of US\$673,000. A year later, the project signed a Project Services Agreement with the credit bureau to attract a strategic foreign technical partner to boost the bureau's effectiveness through best international practices and modern business methods. In parallel, the project strengthens the capacity of the National Institute of Credit Information, the public credit registry of the country, to support the CBU.

Under the secured transaction reform objective, the ACAFI project has also provided assistance in the development of the Law on a Collateral Registry, which was successfully adopted on October 23, 2013. The registry was launched on July 1, 2014, with around 150,000 registrations in its first six months of operation. Currently, the project team is working on building the capacity of financial institutions to provide movable assets-based lending. This work is in line with the Government's request to the World Bank Group for assistance in further improving the investment climate in Uzbekistan and in increasing its *Doing Business* rating.

The project also started a Financial Literacy Program to increase the level of financial literacy in the country, thus increasing access to finance for SMEs and individuals. On March 13, 2015, the project concluded a Project Services Agreement with the Chamber of Commerce and Industry of the Republic of Uzbekistan to boost public awareness on financial literacy among SMEs.

IFC has also provided technical assistance focused on *Doing Business*, which led to the adoption of a new Law on Permit Procedures. The following metrics have shown significant improvements:

- *Construction permits*: the number of procedures decreased from 25 in 2012 to the current 23, and the number of days declined from 243 to 160.
- *Electricity Permits*: the number of procedures decreased from 9 to 7 and the number of days from 117 to 89.
- *Property registration*: the number of procedures decreased from 14 to 13 and the number of days from 77 to 55.
- *Credit*: Uzbekistan's depth of credit information index increased to 7 out of 8 scores from 3 (the highest in the Central Asia region, along with Kazakhstan).

Coverage of the private credit bureau rose from 3 to 17.8 percent of adults.

- *Taxes*: the number of payments decreased from 41 to 33, and the total tax rate decreased by almost two times, from 99.3 percent of profit to 42.2 percent.

Currently, IFC is providing advisory services to Hamkorbank, helping develop customized financing products for farmers and improving corporate governance practices via the *Central Asia Agrifinance Project* and the *Central Asia Corporate Governance Project*. Focused on one investee bank, IFC delivered training on the specifics of agri-lending and assisted loan officers in assessing 30 agri-lending deals through on-the-job training. IFC also conducted a diagnostics of the bank's current leasing and long-term equipment lending operations with the aim of incorporating the specifics of agri equipment in the current processes. Ultimately, the bank's agri-lending portfolio shot up from US\$400,000 in September 2013 to US\$15 million in December 2014. IFC also delivered training to the Uzbekistan Lessors Association on risk mitigation tactics in agri-leasing.

In another direction, IFC is providing fee-based advisory services to help leading beverage producer IBT develop and implement a food safety management system aligned with international quality standards, which will ultimately enhance its competitiveness and export potential and generate a demonstration effect for other private companies in this sector. The company significantly improved its operational performance and compliance with international Pepsi standards, from 53 percent in 2012 to 79 percent in 2013. The client also reported a 5 percent increase in sales and borrowed US\$4.5 million from a local bank to invest in system implementation. IFC also delivered two trainings for food safety consultants and food producers, which served as the launch of the regional rollout of its Food Safety Toolkit.

At the same time, IFC continues to work together with the State Tax Committee (STC) of the Republic of Uzbekistan on the development and implementation of IT solutions for risk-based audits (RBAs), which will help tax inspectors to simplify tax administration for MSMEs. During the first two years, a RBA system module for a taxpayer risk assessment in a simplified tax regime was developed, piloted, and implemented, and a module for a taxpayer risk assessment in a general tax regime is in the process of development. The STC uses the RBA system to detect risks of tax underreporting or fraud to focus inspectors' attention on the most risky taxpayers. The introduction

of the RBA system will help the STC to improve the performance of tax auditing as well as the collection of budget revenue and also to reduce the compliance burden on businesses, including the majority of SMEs.

In October 2013, IFC, jointly with the German Technical Cooperation Agency (GIZ) and the Chamber of Commerce and Industry of Uzbekistan, conducted a two-day training program on a resource efficiency assessment methodology. Participants (local engineers, energy auditors, and representatives from consulting and manufacturing companies) received practical knowledge about resource efficiency diagnostics, benchmarking, in-depth assessments, and results presentations.

IFC, jointly with the World Bank, developed a rapid assessment report on tourism sector development, an activity related to ongoing collaboration with the Government in preparation of a long-term strategy for economic diversification, job creation, and competitiveness under the Uzbekistan Vision 2030. Under this collaboration, the Government identified tourism as a priority sector. Together with the Bank's Private Sector Development team, IFC produced the Rapid Assessment Report "Transforming Tourism Opportunities in Uzbekistan," which was presented to the Government in May 2013 and was very well received by all stakeholders.

From 2001 to 2011, IFC also provided Advisory Services on leasing, microfinance development, mortgages, the investment climate, water efficiency in agriculture, and the implementation of the public-private partnership mechanism in the public health sector in Uzbekistan.

MIGA Program

The Multilateral Investment Guarantee Agency (MIGA) program in Uzbekistan is limited to one project to cover a non-shareholder loan to LUKOIL Overseas Uzbekistan Ltd. This is a US\$119.5 million guarantee for a period of up to seven years against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance issued under the *Khanzarak-Shady Block and Kandym Field Group Project*.

This project represents one of the largest foreign investments in Uzbekistan and is expected to be a major source of foreign exchange and government revenue. Benefits include significant direct and indirect employment. The local procurement of materials is also expected to be significant.

MAP OF THE REPUBLIC OF UZBEKISTAN



UZBEKISTAN: HEALTH SYSTEM IMPROVEMENT PROJECT (HEALTH III)

Project P113349 & P133187

Key Dates:

Approved: April 7, 2011 (Health-3); March 7, 2013 (AF)

Effective: November 2, 2011 (Health-3); September 19, 2013 (AF)

Closing: December 31, 2018

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed*</i> |
|--|------------------|------------------|---------------------|
| IDA Credit | 93.0 | 29.7 | 63.3 |
| IDA AF Credit | 93.0 | 0.0 | 93.0 |
| Government of Uzbekistan (incl. AF) | 40.5 | | |
| Total Project Cost | 226.5 | | |



*As of January 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Challenges:

Population health outcomes in Uzbekistan are commensurate with its socioeconomic development level as a lower-middle-income country. Over the past several years, the greatest burden of disease in Uzbekistan has been attributed to noncommunicable diseases (NCDs) and other chronic diseases, with cardiovascular diseases and neuropsychiatric conditions among the highest causes of morbidity for both males and females.

The current configuration for the provision of inpatient services is unproductive. Uzbekistan has a large, inefficient, and fragmented network of hospitals and specialized clinics, characterized by multiple vertical programs and many single-specialty facilities. There is a lack of clarity regarding the specific roles and linkages between the numerous hospitals and specialized care facilities. In addition, the organization of buildings and departments within each hospital is usually also very inefficient; there are multiple buildings on a hospital site, with a poor functional layout and connection. The management system is also unproductive, due to the many disconnected vertical chains of command and the reliance on vertical technical routes for oversight.

The overall revised **Project Development Objective** is to (a) improve access to quality health care at the primary level and at Rayon Medical Unions (RMUs) and selected City Medical Unions (CMUs); and (b) strengthen the Government's public health response to the rise in NCDs.

Results achieved:

- 49 RMUs have been rehabilitated as part of the National Investment Program. An additional 71 RMUs have been included in the program and will be renovated in 2015–16.
- 161 medical facilities have received medical equipment.
- Five new treatment standards for NCDs have been developed and approved by the Ministry of Health (target: 25 by the end of 2018); additionally, 19 draft protocols are ready and being reviewed by the ministry.
- 1,889 doctors have completed 10-month general practitioner (GP) training; 644 are currently enrolled in the training program (target is 3,000 by the end of 2018).
- 7,239 GPs and 20,361 nurses have completed continuous professional development courses.
- The first in the country STEPs survey on NCD risk factors is currently in process, and the final report will be ready by March 2015.

Key Partners: Ministry of Health of Uzbekistan; Cabinet of Ministries; Ministry of Finance; Ministry of Economy; and Central Project Implementation Bureau. **Key Development Partners:** Asian Development Bank (ADB), UK's Department for International Development (DfID), the U.S. Agency for International Development (USAID), the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), and the United Nations Development Programme (UNDP).

UZBEKISTAN: IMPROVING PRE-PRIMARY AND GENERAL SECONDARY EDUCATION PROJECT
Project P144856

Key Dates:

Approved: June 28, 2014
Effective: January 26, 2015
Closing: January 31, 2018

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed*</i> |
|----------------------------------|------------------|------------------|---------------------|
| Global Partnership for Education | 49.9 | 0 | 0 |
| Government of Uzbekistan | 4.21 | | |
| Total Project Cost | 54.11 | | |



*As of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Challenges:

Early childhood development (ECD) and early childhood care and education (ECCE) are increasingly priority areas for the Government of Uzbekistan. Although Uzbekistan has nearly universal coverage of essential health and nutrition interventions for young children, the national enrollment rate in ECCE for children aged three–six is low by international standards at 23.3 percent nationally in 2012. Demand for available ECCE services is also low in Uzbekistan. As of 2010, for every 100 preschool seats available, just 78 children are enrolled, indicating that the current number of available seats in preschools exceeds enrollment levels by 22 percent, a trend that has been consistent for the past decade. This means that there are extra classrooms in many existing pre–primary schools, especially in rural areas.

Access to general secondary education is nearly universal. Learning outcomes and the quality of education, however, vary by region. Schools located in rural areas fare worse in most aspects compared to urban schools; the availability of teaching and learning materials, the status of infrastructure, and student outcomes all tend to be lower in more remote areas. Only 37 percent of remote rural schools have a sufficient number of teaching materials compared to 64 percent in urban areas.

The **Project Development Objectives** are to increase access of children aged three–six to quality ECCE in rural pre–primary institutions and to improve conditions for better learning outcomes for students of rural general educational secondary schools.

Expected results:

- Increased percentage of children aged three–six enrolled in ECCE in rural areas of Uzbekistan
- Increased percentage of rural general educational secondary schools that meet minimum school standards
- Results of student assessments in mathematics and native language for grade 4 analyzed and publicly disseminated
- Results of student assessments in mathematics and native language for grade 9 analyzed and publicly disseminated
- Increased number of children aged three–six benefiting from early reading activities in the home
- Increased number of children aged five–six enrolled in the project half-day model
- Increased number of teachers and school managers trained in advanced areas of teaching and education management developed by the project

Key Partners: Ministry of Public Education of Uzbekistan; Ministry of Finance; Republican Institute for Teacher Training and Retraining named after A. Avloniy; and Republican Institute for Preschool Teacher Training.

Key Development Partners: UNICEF, UNESCO.

UZBEKISTAN: RURAL ENTERPRISE SUPPORT PROJECT, PHASE II

Project P109126

Approved: June 12, 2008

Effective: December 30, 2008

Closing: December 31, 2016

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IDA Credit | 67.96 | 47.61 | 10.69 |
| AF IDA credit | 40.0 | 7.8 | 37.3 |
| Government of Uzbekistan | 6.58 | | |
| Beneficiary | 0.49 | | |
| Swiss parallel financing | 6.0 | | |
| Total Project Cost | 107.96 | 55.41 | 47.99 |



*As of February 2015

Note: *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*

Challenges:

The project responds directly to the Welfare Improvement Strategy of Uzbekistan in several areas: (a) supporting the further development of private sector farming; (b) strengthening the infrastructure and services required by private farmers; (c) increasing and encouraging commercial banking sector lending to agriculture; (d) developing an integrated sustainable water management system for the supply of irrigation water; and (e) addressing land quality problems associated with irrigation and drainage. The availability of financial services for rural areas remains an acute issue, as access is more limited than in urban areas, while rural demand is increasing dramatically (partly as a factor of the privatization of farmers). The provision of adequate financial services to the general agribusiness sector remains constrained.

The **Project Development Objective** is to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area. This will be achieved through the provision of (i) financial and capacity-building support to farmers and agribusinesses in seven regions of the Republic of Uzbekistan, and (ii) improved irrigation service delivery through the rehabilitation of the irrigation and drainage infrastructure and the strengthening of Water Users Associations (WUAs) in the project area.

Results achieved:

- 469 agribusinesses have received financing for the procurement of agricultural machinery, processing equipment, packaging equipment and materials, and investments in tree-crops, poultry and fishery, and livestock production.
- 61,000 farmers have been trained under the Rural Training and Advisory Component on the following subjects (a) principles of crop protection and pest control; (b) development of livestock production; (c) poultry production; (d) fish production; (e) preparation of business plans; (f) accountancy; (g) agricultural law and taxation; (h) water resource management; (i) orchard and vineyard production; (j) processing and marketing of products; and (k) products for domestic and export markets. Also, farmers' awareness has been raised on national laws and regulations and International Labour Organization (ILO)-ratified conventions on the prevention of child labor.
- 480 lending officers of the participating financial institutions (PFIs) have been trained in investment lending in agriculture and rural development.
- 63 new WUAs have been established to improve water management in the seven project districts; 11,841 water management specialists trained at 446 workshops within the training program for all new WUAs, Administration of Irrigation Systems (AIS), and BAIS (Basin Administration of Irrigation Systems).
- Additional International Development Association (IDA) funds (IDA Credit No. 4433 UZ) in the amount of US\$40 million were approved for the RESP II by the Board on September 11, 2012. The Additional Financing supports the scaling-up of the original project's credit line for loans and leases under Component 1, Rural Enterprise Finance, by providing funds through selected PFIs for investment and working capital subloans and lease financing to beneficiaries.

Key Partners: Ministry of Agriculture and Water Resources; Rural Restructuring Agency; local commercial banks.

Key Development Partners: ADB, Swiss Agency for Development and Cooperation (SDC).

UZBEKISTAN: FERGHANA VALLEY WATER RESOURCES MANAGEMENT
Project P110538

Key Dates:

Approved: September 24, 2009

Effective: March 3, 2010

Closing: July 31, 2016

Financing from all co-financiers, million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IDA Credit | 65.54 | 37.42 | 21.84 |
| Government of Uzbekistan | 16.31 | | |
| Total Project Cost | 81.85 | | |



*As of February 2015

Note: *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*

Challenges:

Primary agriculture is highly important for Uzbekistan. The sector constitutes 17.5 percent of GDP and is Uzbekistan's major source of employment and income. Because of the country's arid climate, almost all agriculture depends on the irrigation and drainage infrastructure. The irrigated areas are located in the valleys and plateaus near the Amu Darya and Syr Darya Rivers and cover about 4 million hectares. Of this, more than 25 percent is within the Ferghana Valley, a region shared by Uzbekistan, the Kyrgyz Republic, and Tajikistan. The Ferghana Valley has the most fertile soils in Central Asia and its highest population density. As a whole, the Ferghana Valley has an irrigated area covering about 1.4 million hectares, of which the Uzbek share is roughly two-thirds. The total population of the Ferghana Valley is about 10 million, 70 percent of whom reside in the Uzbek area, comprising about 28 percent of the population of Uzbekistan.

The **Project Development Objective** is to improve agricultural production in areas affected by waterlogging and to reduce damage to housing and infrastructure from rising groundwater levels and salinity in the project districts.

The project finances improvements in the subsurface drainage network and irrigation systems and the rehabilitation and installation of vertical drainage networks. The project also provides support for the institutional strengthening of the public and private organizations involved in the enhancement of water resource management and agriculture production in the project area. Finally, the project supports operational expenditures for project management, consultancy services for auditing project expenditures, monitoring and evaluation (M&E) of project impacts, and preparation for a future project.

Results achieved:

- The project became effective in March 2010. All necessary contracts have been awarded and signed.
- Project staff has been recruited, and the M&E services under the project have been started.
- Project activities have been demonstrated in the nine selected demonstration plots in the three districts.
- Water Consumer Associations have been reorganized and staff have received training.
- 552.59 kilometers of irrigation canals and drains have been rehabilitated and made functional.

Key Partners: Ministry of Agriculture and Water Resources.

Key Development Partners: ADB, SDC, and the Scientific-Information Center of the Interstate Commission for Water Coordination of Central Asia (SIC-IWRC).

**UZBEKISTAN: SOUTH KARAKALPAKSTAN WATER RESOURCES MANAGEMENT
IMPROVEMENT PROJECT**
Project P127764

Key Dates:

Approved: June 12, 2014

Effective: March 26, 2015*

Closing: September 30, 2021

Financing from all co-financiers, million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IDA Credit | 242.5 | 0.00 | 242.5 |
| IBRD Loan | 18.29 | 0.00 | 18.29 |
| Government of Uzbekistan | 76.64 | | |
| Total Project Cost | 337.43 | | |



*As of February 2015

Note: Project is not effective yet.

Challenges:

With a poverty rate of 32 percent and a food poverty rate of 26.4 percent, the Autonomous Republic of Karakalpakstan—where the project will be operating—is one of the poorest regions of Uzbekistan. The economy of the region, formerly largely dependent on fisheries, is now supported by cotton, livestock, and melons and relies heavily on extensive irrigation development, much of which is poorly managed. Wasteful water use has led to soil degradation and high operation and maintenance (O&M) costs, as much of the irrigated area depends on pumps, which erodes sustainability. Improving irrigation performance will reduce operation costs, help people move out of poverty, and build their assets.

The **Project Development Objective (PDO)** is to restore irrigation and improve water management in the project area in a sustainable and financially efficient manner.

Almost the entire drainage system of the project area (100,000 hectares) has been rehabilitated under Drainage, Irrigation and Wetlands Improvement Project. The South Karakalpakstan Water Resources Management Improvement Project (SKWRMIP) will remove the dependence of irrigation on pumping by developing a gravity off-take from the Tuyamuyun reservoir and dismantling all lower Amu Darya pumping stations serving the project area. To achieve this, a new 68 kilometer Bustan Canal will be constructed and the Right Bank Canal (RBC) will be reprofiled. In addition, secondary canals will also be reprofiled, and deteriorated and damaged structures will be refurbished or replaced. The project will also strengthen institutions and capacities, introduce more efficient irrigation management that is more accountable to stakeholders to help ensure sustainability, and promote crop diversification and intensification, including the production of a third non-cotton/non-wheat crop after winter wheat. Finally, the project will establish third-party monitoring and mechanize the cotton harvest in support of the elimination of child and forced labor in the project area.

Results to be achieved:

- 41,000 water users in the South Karakalpakstan project area will be provided with new or improved I&D services;
- Cotton ginneries in the project area will benefit from the provision of cotton cleaning equipment;
- Women in the project area will benefit from targeted outreach and participation in the Farmer Field Schools (FFSs) and other training provided by the project;
- Water Consumer Associations in the project area will benefit through training, provision of O&M equipment, lower costs for water delivery, and more accountable and transparent water management.

Key Partners: Ministry of Agriculture and Water Resources

Key Development Partners: International Labour Organization and Better Cotton Initiative.

**UZBEKISTAN: GLOBAL ENVIRONMENT FACILITY (GEF) GRANT FOR
A SUSTAINABLE AGRICULTURE AND CLIMATE CHANGE MITIGATION PROJECT**
Project P127486

Approved: January 29, 2013

Effective:

Closing: December 31, 2016

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|-----------------------------------|------------------|------------------|--------------------|
| GEF Grant | 12.69 | 2.1 | 10.64 |
| Associated IDA Fund for RESP-2 | 107.96 | | |
| Total Project Cost | 120.66 | | |



*As of February 2015

Note: *Grant Agreement has been signed on February 7, 2014.
Project became effective on March 7, 2014*

Challenges:

The proposed project responds directly to the strategic goals of the GEF-5 Strategy in the Climate Change Mitigation focal area, namely, promoting the use of renewable energy for the provision of rural energy services and supporting new low greenhouse gas (GHG)-emitting energy technologies. The project also responds to GEF Objective 1 in the Land Degradation focal area to “maintain or improve flows of agro-ecosystem services to sustain livelihoods of local communities.” The project is aligned with the 2012–15 Country Partnership Strategy (CPS) objectives of (i) increasing the efficiency of infrastructure; (ii) enhancing the economy’s competitiveness; and (iii) diversifying the economy. Activities under the proposed GEF project will, in part, provide incremental support to activities under the Second Rural Enterprise Support Project (RESP-2) to provide financial and technical support in achieving the milestones of the CPS.

The **Project Development Objective** is to: (i) promote the introduction of selected renewable energy and energy-efficiency technologies of relevance to agribusinesses and farms; and (ii) strengthen the capacity for improving degraded irrigated land and water conversation in the project area.

Expected Results:

- Number of hectares of irrigated land where degradation has been reversed: 900 hectares
- Number of areas in which renewable energy technology has been demonstrated: 55 areas
- Generation capacity of renewable energy constructed – Biogas: 1,070 megawatts
- Support for the formulation of a regulatory framework to assist the integration of renewable energy into the rural energy system: draft regulatory framework revised and consulted
- GHG emissions avoided by the project (in tons CO₂ equivalent): 3.5 million tons CO₂ equivalent avoided over the lifetime of investments

Key Partners: Ministry of Agriculture and water resources; Rural Restructuring Agency; UzHydromet.

Key Development Partners: ADB, SDC, and the Organization for Security and Cooperation in Europe (OSCE).

UZBEKISTAN: HORTICULTURE DEVELOPMENT PROJECT

Project P133703

Approved: June 12, 2015

Effective:

Closing: June 30, 2021

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 150.00 | 0 | 0 |
| Government of Uzbekistan | 5.27 | | |
| Beneficiaries | 27.86 | | |
| Total Project Cost | 183.13 | | |



*As of March 2015

Note: *Loan Agreement is not yet signed.*

Challenges:

The project will contribute to the World Bank's twin goals of ending extreme poverty and boosting shared prosperity. The project will also contribute to poverty reduction in the country by assisting horticulture farmers, many of whom have small farms and are among the poorest in the population, to increase their farm productivity and incomes and by fostering greater and better rural jobs through: (i) improving access to technologies, knowledge, and markets; (ii) strengthening technical and managerial capacity in the farming and agri-business sectors; and (iii) introducing new financial products in the financial sector. These will bring sustained benefits to the project beneficiaries over the long term. At the same time, the project will promote shared prosperity by supporting the growth and development of small and medium-sized enterprises (SMEs) in the rural areas, creating more and better paying jobs in the agro-processing, trading, and export sectors, and increasing the value added of the agriculture sector.

The **Project Development Objective** is to enhance the productivity and profitability of the horticulture sector in the project area.

Expected Results Indicators:

- Increase in farmer productivity resulting from the adoption of modern horticulture practices supported by the project;
- Increase in gross sales of farmers and agribusinesses due to horticulture improvements supported through the project; and
- Increase in aggregate portfolio lending in the horticulture sector by participating financial institutions.

Key Partners: Ministry of Agriculture and water resources; Rural Restructuring Agency; UzHydromet.

Key Development Partners: ADB, SDC, Islamic Development Bank, and the International Fund for Agricultural Development (IFAD).

UZBEKISTAN: ENERGY EFFICIENCY FACILITY FOR INDUSTRIAL ENTERPRISES

Project P118737

Key Dates:

Approved: June 17, 2010

Effective: December 16, 2011

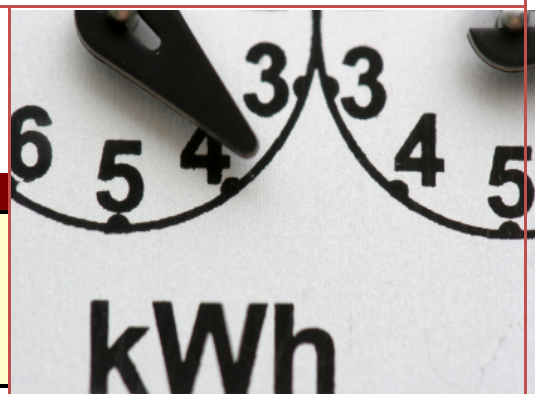
Closing: January 31, 2018

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---|------------------|------------------|--------------------|
| IDA Credit | 125.0 | 45.07 | 75.30 |
| Participating Banks | 31.36 | 4.45 | 26.91 |
| Sub-Borrowers (i.e. Industrial Enterprises) | 31.36 | 4.45 | 26.91 |
| Total Project Cost | 187.725 | | |

* As of March 2014, including Additional Financing in amount of US\$100 million, approved in April 2013 and became effective in December 2013

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement



Challenges:

Uzbekistan has a fast-growing economy and is a producer and exporter of natural gas to Russia and China. At the same time, the country has one of the most energy-intensive industries worldwide and is a major greenhouse gas emitter. Today, the country uses twice as much energy to produce one unit of GDP compared to neighboring Kazakhstan, and six times as much as Germany. The largest energy consumers in Uzbekistan are industrial enterprises, which generally operate outdated equipment and machinery. Recognizing this, the Government of Uzbekistan has declared improving the energy efficiency (EE) and competitiveness of industrial enterprises to be among its key economic priorities and has passed several relevant decrees that aim to incentivize energy savings. Uzbekistan has a relatively large number of banks that provide loans for certain types of industrial enterprises, but long-term funds for EE investments are currently not available. Improving EE and reducing energy consumption in the production process will improve Uzbek industries' overall competitiveness, free up natural gas resources for exports, and reduce overall greenhouse gas emissions. Additional Financing in the amount of US\$100 million was approved by the Board of Executive Directors in April 2013 and became effective in December 2013.

The **Project Development Objective** is to improve EE in industrial enterprises by designing and establishing a financing mechanism for energy saving investments.

Expected results:

- Annual energy consumption savings by at least 20 percent as a result of every subproject implementation, 227,000 megawatts hours cumulatively
- Cumulative CO₂ emissions reduction
- Development of an EE strategy for industrial enterprises
- Development of an EE communications strategy
- Establishment of the Permanent Energy Efficiency Improvement System in industrial associations

Key Partners: Ministry of Finance, Ministry of Economy, participating banks (Asaka, Hamkor, and Uzpromstroy), Association of Chemical Industry "Uzkhmimprom," Food Industry Association, metallurgical plants, gas transportation company "Uztransgaz," etc.

UZBEKISTAN: ADVANCE ELECTRICITY METERING PROJECT
Project 122773

Key Dates:

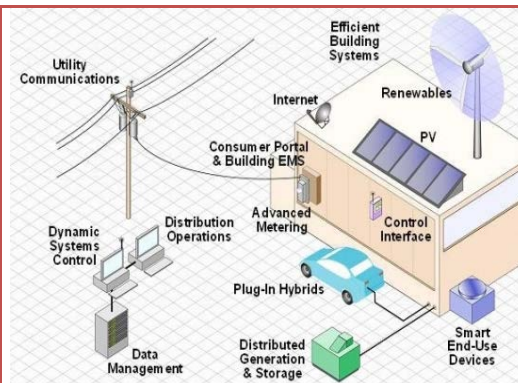
Approved: March 27, 2012
Effective: December 6, 2013
Closing: June 30, 2017

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 180.00 | 0.45 | 179.55 |
| Uzbekenergo | 66.1 | | |
| Total Project Cost | 246.1 | | |

*As of March 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges:

Uzbekistan has a wide national power transmission and distribution network: 1,850 kilometers of 500 kilovolt lines, 6,200 kilometers of 220 kilovolt lines, 15,300 kilometers of 110 kilovolt lines, and more than 11,000 0.6–35 kilovolt lines.

Transmission and distribution system losses, both technical and commercial, are officially reported to be around 20 percent of electricity generated, around two–three times the losses experienced in advanced European power grids and some middle-income developing countries. Although the collection rates for power bills have improved in the past few years, there is still significant room for further improvement.

Currently, a major focus of the Government’s energy strategy is to rapidly improve the energy efficiency of both the energy supply industries and energy end users. A key action in the power sector is to implement a countrywide advanced electricity metering (AEM) program to improve the transparency and accountability of the sector. The program aims to implement modern technologies in electricity metering, billing, and payment collection to reduce commercial losses. It will also encourage electricity consumers to use electricity more efficiently by providing transparent and fair pricing signals and information on electricity consumption.

The **Project Development Objective** is to reduce commercial losses in Uzbekenergo’s three regional power distribution companies in Tashkent City and the oblasts of Tashkent and Syrdarya by improving their metering and billing infrastructure and the commercial management systems.

Expected results:

- Improvement of energy balance management and power supply reliability
- Improvement of the billing system and collection rate in project areas, from 80 to 88 percent in the billing rate, and 78 to 98 percent in the collection rate
- Improvement of the capacity of Uzbekenergo and the staff of the distribution companies

Key Partners: State Joint Stock Company Uzbekenergo; Ministry of Finance.

Key Development Partners: ADB.

UZBEKISTAN: TALIMARJAN TRANSMISSION PROJECT

Project P119939

Key Dates:

Approved: March 15, 2011

Effective: November 11, 2011

Closing: December 31, 2015

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 110.00 | 70.22 | 39.70 |
| Uzbekenergo | 61.04 | 61.04 | 0.00 |
| Government | - | | |
| Other Donors | | | |
| Total Project Cost | 171.04 | | |

*As of March 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges:

Uzbekistan has a fast-growing economy and is a producer and exporter of natural gas to Russia and China. With more than 12 gigawatts of installed power generation capacity, Uzbekistan is the second-largest producer of electricity in the Central Asia region.

Given the growth of demand, with its associated increase in overloading and an aging infrastructure, the transmission system has been experiencing high losses and frequent, long power outages. In winter, outages are from two to six hours a day in the southern and western regions, creating serious bottlenecks for economic and social development. In the south, congestion in power transmission is acute, where electricity consumption during the winter peak increased by nearly 40 percent from 2,318 megawatts in 1999 to almost 3,000 megawatts in 2008. There are also constraints to frequency regulation due to the predominant thermal mix. Large investments are needed to improve the transmission network required to meet the growth in load demand, reduce losses, and increase the electricity trade.

The **Project Development Objective** is to improve the reliability of the electricity supply to residential and business consumers in southwest Uzbekistan. The project supports changes in utility governance and renewable energy development. The project was restructured in July 2013, due to the “savings in the investment” component, i.e., purchasing the equipment for the transmission line and the open switchyard, in the amount of US\$48 million. The savings were allocated to further upgrading and strengthening the transmission network in southwest Uzbekistan. The 500 kV Talimarjan–Sogdiana transmission line and the open switchyard at Talimarjan Thermal Power Plant were built and put on trial load in February 2014.

Expected results:

- Reduced number/duration of electricity outages in the project area from 92 to 48 hours per year
- Increased electricity supplied to consumers in the southwestern parts of Uzbekistan from 16,333 to 22,200 gigawatts annually
- Reduced voltage variation range from 10 to 5 percent
- Transition from Soviet-era GOST standards to International Electrotechnical Commission (IEC) standards
- Enhanced capacity of Internal Audit Departments
- Identification of areas with wind power potential

Key Partners: State Joint Stock Company Uzbekenergo; Ministry of Finance.

Key Development Partners: ADB, Japan International Cooperation Agency (JICA), and the Uzbekistan Fund for Reconstruction and Development (FRD).

UZBEKISTAN: BUKHARA AND SAMARKAND SEWERAGE PROJECT

Project 112719

Key Dates:

Approved: August 4, 2009

Effective: April 1, 2010

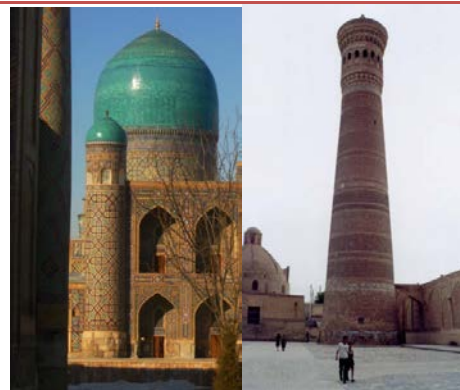
Closing: December 31, 2015

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|-----------------------------|------------------|------------------|--------------------|
| IBRD Credit | 55.00 | 24.30 | 30.38 |
| Government Of Uzbekistan | 11.16 | | |
| Total Project Cost | 66.16 | | |

*As of February 13, 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges:

Since independence in 1991, Uzbekistan's municipal services have been largely decentralized to local governments. However, insufficient investment and deferred maintenance have badly affected the infrastructure, which is older than 20 years, has severely deteriorated, and is often energy inefficient. The decline in service reliability has reduced the public's quality of life and constrained economic growth. The sewerage systems in Bukhara and Samarkand are more than 40 years old and will soon need to be replaced. Deferred maintenance must now be addressed through a combination of crash preventive maintenance and rehabilitation.

The **Project Development Objectives** are to mitigate the environmental impact from wastewater pollution and improve the efficiency and sustainability of wastewater management in Bukhara and Samarkand. This will be achieved through: (a) rehabilitating select sections of the sewerage system that are deteriorated; (b) expanding (to a limited extent) the sewerage system into currently unconnected central historical areas; (c) installing more energy-efficient equipment such as wastewater pumps and aeration systems at the wastewater treatment plants and pumping stations; and (d) improving the capacity of the water utilities (vodokanals) in the areas of management, communications, and public outreach.

Results achieved:

- Project implementation progresses with a number of goods, civil works, and consultant services contracts currently underway. The most urgent investments: civil works contract to construct new sewers (2.2 kilometers) and new sewer pumping station in Samarkand along Pendjikentskaya Str. are fully operational. A number of sewer rehabilitation and construction contracts have been completed and are now currently under implementation (Bukhara: 6.83 kilometers of sewers rehabilitated with two new pumping stations constructed; Samarkand: 16.1 kilometers of sewers rehabilitated and 3.85 kilometers of new sewers laid, with one new pumping station constructed).
- Detailed engineering designs have been developed by local design consultants for the rehabilitation of wastewater treatment plants, sewers, and pumping stations in Samarkand and Bukhara. Operation and maintenance equipment has been procured for both vodokanals of Bukhara and Samarkand. A number of packages for the rehabilitation/construction of the rest of the sewers and pumping stations are being procured, and for Bukhara, the wastewater treatment plant finalized.
- Training of vodokanals' staff on sewerage operation was completed in Bukhara and Samarkand.

Key Partners: Uzkommunkhizmat (State Agency for Public Utilities); Bukhara Regional Governor's office and Water Utility; and Samarkand Regional Governor's office and Water Utility.

UZBEKISTAN: SYRDARYA WATER SUPPLY PROJECT
Project 111760

Key Dates:

Approved: March 1, 2011

Effective: January 14, 2012

Closing: December 31, 2017

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IDA Credit | 88.0 | 5.41 | 82.59 |
| Government of Uzbekistan | 12.0 | | |
| Total Project Cost | 100.0 | | |

*As of February 13, 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges:

Soon after independence in 1991, the Government of Uzbekistan launched an ambitious program to reform municipal services and rehabilitate decaying public service infrastructure. These assets had long been neglected by centralized service providers, who relied on central government funds to pay for operations and maintenance and capital programs. Since then, the responsibility for municipal services has been largely decentralized to local governments, and policies have been enacted in pursuit of better availability, quality, and sustainability of services. An estimated 82 percent of Uzbekistan's population has access to potable water, with great disparities between urban and rural areas. The Government asked for Bank assistance to improve water supply services in small towns and villages in five districts in the Syrdarya oblast (region). The beneficiaries reside in about 1,100 small towns and villages over an area of about 4,000 kilometers. Currently, 2.25 percent of the project towns receive no piped water at all and have to rely on water tankers, another 55 percent receive piped water less than six hours daily, 10 percent between six and 24 hours daily; only about 10 percent have 24-hour service.

The **Project Development Objective** is to improve the availability, quality, and sustainability of the public water supply service in selected districts of the Syrdarya region. The objective is to be achieved through the rehabilitation, replacement, and limited expansion of the water supply infrastructure and through the institutional capacity building of the Syrdarya Regional Suvokova (SVK) utility. Capacity building will in particular aim at improved operations and maintenance and at the systematic billing and collection of user charges, to cover annual cash operating expenses (including repairs and maintenance) and a marginal share of annual debt service as agreed with the Government.

Results achieved:

- Project Coordination Unit branch is now fully staffed and functional.
- The first civil works for the rehabilitation of 30 kilometers of bulk pipeline have been procured.
- Detailed designs for transmission mains, distribution networks, and service connections are being developed.

Key Partners: Uzkommunkhizmat (State Agency for Public Utilities); Syrdarya Regional Governor's office and later Utility.

UZBEKISTAN: ALAT AND KARAKUL WATER SUPPLY PROJECT

Project 118197

Key Dates:

Approved: December 13, 2012

Effective: February 13, 2014

Closing: December 31, 2017

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IDA Credit | 82.00 | 0 | 82.00 |
| Government of Uzbekistan | 55.70 | | |
| Total Project Cost | 137.70 | | |

*As of February 13, 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges:

Straddling the Amu Darya and Syr Darya international river basins, Uzbekistan has access to significant but unevenly distributed water resources. Both surface water and groundwater were intensively used under the Soviet Union for the needs of agriculture, industry, mining, and hydropower, within a broader regional context. Although the country has been proactive in attending to infrastructure needs during the economic transition, over time, the limited capacity of sector institutions to maintain, renew, and expand such assets has led to an effective degradation of access to water supply and sanitation services. The situation is particularly dire in rural areas, where previously served communities often cope with chronic service breakdown or no service at all. Piped water supply, where available, is of extremely low quality, with turbid unfiltered water reaching customers discontinuously in the two towns and a few peri-urban villages in their immediate vicinity. Nearly 80 percent of the districts' population still lives in rural areas with no piped water supply, relying on unsafe water drawn from irrigation channels and saline wells or bought at high cost from tanker trucks.

The **Project Development Objective** is to improve the coverage, quality, and efficiency of the public water supply service in the districts of Alat and Karakul in the Bukhara region. The objective will be achieved through the rehabilitation and expansion of the water production, transmission, and distribution infrastructure at the urban and rural levels. Efficiency is to be measured from a financial and operational perspective.

Expected results:

- rehabilitation and expansion of the Dvoynik intake along the Amu-Bukhara canal, with construction of a new water treatment plant with a capacity of about 49,000 cubic meters per day;
- renewal of 37 kilometers of bulk transmission lines to convey potable water to storage facilities in the towns of Alat and Karakul;
- rehabilitation and expansion of the urban distribution systems of Alat and Karakul, including meter installation on user connections;
- building of new rural transmission, storage, and distribution systems to serve about 120 villages in the Alat and Karakul districts through metered household connections;
- building of the institutional capacity of Bukhara Vodokanal to manage, operate, and maintain the new systems;
- preparation of a feasibility study for follow-up investments for sewerage and sanitation in the districts.

Key Partners: Uzkommunkhizmat (State Agency for Public Utilities); Bukhara Regional Governor's office and Water Utility.

UZBEKISTAN: PAP-ANGREN RAILWAY PROJECT

Project P146328

Approved: February 13, 2015

Effective: July 2, 2015 (expected)

Closing: December 31, 2017 (expected)

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 195.00 | 0 | 0 |
| Government of Uzbekistan | 1088.75 | | |
| China Export Import Bank | 350.00 | | |
| Total Project Cost | 1633.75 | | |

*As of March 2015

Note: *Loan Agreement was signed on March 4, 2015.*



Challenges:

The project will address the transport connectivity issue for the Ferghana Valley, one of the main reasons for the valley's lag in economic growth. The Ferghana Valley constitutes the eastern-most region of Uzbekistan, where almost one-third of the country's population lives. Although the region has vast industrial and agricultural potential, its socioeconomic development lags behind other regions. GDP per capita in 2012 of the three provinces located in the Ferghana Valley (Ferghana, Andizhan, and Namangan) was below the country average by 11 percent, 32 percent, and 52 percent respectively. Poverty levels and poverty density are also very high across the region; for example, the region has one-fourth of the poor in Uzbekistan and 22 percent of the total population, compared to the city of Tashkent, which is home to 8.2 percent of the total population but only 2.1 percent of the country's poor. Lack of connectivity is a significant obstacle to the development of the Ferghana Valley. The project is challenging technically as it involves new construction passing through mountainous terrain and includes a 19.6 kilometer rail tunnel. The proposed rail line would also improve the rail linkage of the Uzbek part of the Fergana Valley to the Transport Corridor Europe–Caucasus–Asia (TRACECA) rail transport corridors running east-west through Turkmenistan/Caspian/ Caucasus/Turkey and Kazakhstan/Russia, potentially adding traffic to these routes.

The proposed project supports three main strategies of the World Bank in Uzbekistan for FY12–15: (i) Improving the efficiency of infrastructure and specifically, transport infrastructure. Currently, goods and products exported from the Ferghana Valley bear three times the average transport costs. As the country intends to play a more important role as an international redistribution hub for manufactured products, the development of the new railway connection to the valley will improve logistical opportunities and enhance the transport capacity of the national rail network. (ii) Supporting diversification by improving infrastructure to increase economic productivity and competitiveness, including in the agricultural sector. The proposed project will reduce transport time and costs so that Ferghana Valley products could be more readily exported, which will create incentives for time-sensitive, high-value, and market-oriented agricultural and manufacturing outputs. (iii) Supporting, through increased transport connectivity of the Ferghana Valley, the facilitation of private sector–led diversification. By providing more opportunities for small and medium-sized enterprises (SMEs) to reach markets and retain a greater percentage of the delivered price of their goods, the project is expected to boost private sector activity, particularly benefiting SMEs and small-scale farmers.

Expected Results Indicators

- Decrease in transportation costs for railway transport users, commuting to/from Ferghana Valley;
- Decrease in transportation costs for freight for products delivered to/from and produced in Ferghana Valley, including oil and oil products, fertilizers, automobiles, and others; and
- Aggregate increase in the reliability of rail services in the country.

Key Partners: Ministry of Economy; State Joint Stock Railway company “Uzbekiston Temir Yollari,” and the local administration of the Tashkent and Namangan regions.

Key Development Partners: Fund for Reconstruction and Development of Uzbekistan, China Export Import Bank.

UZBEKISTAN: IFC AZERBAIJAN AND CENTRAL ASIA FINANCIAL MARKETS INFRASTRUCTURE ADVISORY SERVICES PROJECT (Phase I and II)

Key Dates:

Project Launch: May 2009

Project Phase I Close: September 2012

Project Phase II Launch: October 2012

Project Phase II Close: September 2015

Financing in million US Dollars:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|-------------------------------|------------------|------------------|--------------------|
| The Government of Switzerland | 1,448,036 | | |
| OeEB | 72,239 | | |
| IFC internal funding | 15,000 | | |
| Cash fee | 20,000 | | |
| Additional contribution | 11,100 | | |
| Total Project Cost | 1,566,375 | | |



Challenges:

Access to finance is one of the foundations of private sector growth. As such, supporting the development of the financial sector has been a priority of the International Finance Corporation (IFC) in Azerbaijan and the Central Asia region (Kyrgyz Republic, Tajikistan, and Uzbekistan). The current financial market in the region needs further strengthening in order to secure its financial stability and broader access to finance. The countries are lacking or have underdeveloped cornerstones of a sound financial infrastructure: a credit bureau and collateral registries. The region also lacks local financial staff trained and experienced in risk management practices.

The **Project Development Objective** is to expand secured access to finance for individual consumers and micro, small, and medium-sized enterprises (MSMEs) by improving the financial infrastructure in the four project countries. The project will continue with the development of credit bureaus and expand the collateral registries component through a programmatic approach, including:

- Improving legislation relevant to improved credit information sharing and secured transaction practices;
- Building the capacity of credit bureaus/public registries and movable collateral registries;
- Strengthening the capacity of financial intermediaries by providing new tools related to credit reporting and secured transactions and improving the risk management practices of local financial institutions;
- Raising public awareness and disseminating the financial literacy program.

The primary project objectives are to establish sustainable operational financial infrastructure systems in the four project countries and to facilitate an additional US\$373.2 million of financing to 641,400 individual consumers and MSMEs over five years, including US\$68 million of financing to 136,000 individual consumers and MSMEs in Uzbekistan.

Expected results:

Credit reporting: well-designed credit reporting legal framework with functioning private credit bureau; reformed public registry functional.

Secured transaction: well-designed secured transition legal framework; movable collateral registry holder has been identified and works on its establishment have begun; key stakeholders are educated on how to use it.

Results achieved:

- The Law of the Republic of Uzbekistan on Sharing Credit Information developed and adopted on October 4, 2011.
- In May 2013, IFC and the credit bureau “Credit Information and Analytical Center” signed an agreement to attract a foreign technical partner to boost the bureau’s effectiveness through best international practices and modern business methods.
- The Law of the Republic of Uzbekistan on a Collateral Registry developed and adopted on October 23, 2013.
- The Risk Certification Program (RCP) has been implemented in Uzbekistan, based on an agreement with the Global Association of Risk Professionals (GARP) through local training partners (LTPs): the Regional Banking Training Center and the Federation of Accountants, Auditors and Consultants of Uzbekistan. These LTPs started to train financial institutions’ staff on RCP. Nine representatives from financial institutions passed the GARP exam and all of them received certificates.
- A series of trainings and public relations events held to increase better understanding of the credit information-sharing system and collateral registry. ACAFI Project concluded a Project Services Agreement with the Chamber of Commerce and Industry of the Republic of Uzbekistan, which will help to increase the level of financial literacy among SMEs in the country.

Key Partners: Central Bank of Uzbekistan, Uzbekistan Banking Association, Credit Information and Analytical Center, Regional Banking Training Center, and Federation of Accountants, Auditors and Consultants of Uzbekistan, and Chamber of Commerce and Industry of Uzbekistan.

UZBEKISTAN: MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)
LUKOIL Overseas Uzbekistan Ltd.
Project ID 8420

| | |
|---------------------------------|---|
| Fiscal year: | 2012 |
| Status: | Active |
| Guarantee holder: | BNP Paribas (Suisse) SA |
| Investor country: | Switzerland |
| Host country: | Uzbekistan |
| Environmental category: | A |
| Sector: | Oil and Gas |
| Strategic priority area: | Complex Project IDA South-South |
| ESRS: | Original ESRS for LUKOIL Overseas Uzbekistan Ltd. Revised ESRS for LUKOIL Overseas Uzbekistan Ltd. |



| | |
|----------------------------|-------------------|
| Date SPG disclosed: | May 18, 2011 |
| Project Board date: | July 19, 2011 |
| Gross exposure: | US\$119.5 million |
| Project type: | Non-SIP |

On May 16, 2012, MIGA issued a guarantee of US\$119.5 million to BNP Paribas (Suisse) SA of Switzerland to cover a non-shareholder loan to LUKOIL Overseas Uzbekistan Ltd. for the Khauzak-Shady Block and Kandym Field Group project. The coverage is for a period of up to seven years against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance.

This project furthers development begun in 2005 under a production-sharing agreement (PSA) between LUKOIL, the national holding company “Uzbekneftegaz,” and the Republic of Uzbekistan represented by the Ministry of Economy.

This project represents one of the largest foreign investments in Uzbekistan and involves one of the few foreign companies operating under a PSA together with Uzbekneftegaz.

MIGA’s involvement provides an external validation of the company’s efforts to meet international best practice when it comes to managing the governance, environmental, and social impacts of oil and gas projects. This is particularly important as Uzbekistan has begun to attract large-scale foreign investment into its upstream gas sector.

The project is expected to be a major source of foreign exchange and government revenue. Benefits include significant direct and indirect employment. The local procurement of materials is also expected to be significant.

At a broader level, MIGA is supporting an important investment in a developing economy that has been lagging behind its peers in the region in attracting foreign direct investment. MIGA’s role in this project complements the World Bank’s efforts to foster responsible and sustainable private sector–led growth in Uzbekistan. The project is also aligned with MIGA’s commitment to support more investments in complex deals in infrastructure as well as those in countries eligible for concessional lending from IDA. As beneficial ownership of the project accrues to LUKOIL of Russia, it also addresses MIGA’s commitment to support South-South investments.