Report Number: ICRR0023053

1. Operation Information

Operation ID P166019	**Operation Name** Uzbekistan Reforms for Transition DPO
Country Uzbekistan	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IDA-62840	**Closing Date (Original)** 31-Dec-2019	**Total Financing (USD)** 500,000,000.00
Bank Approval Date 26-Jun-2018	**Closing Date (Actual)** 31-Dec-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	500,000,000.00	0.00
Revised Commitment	500,000,000.00	0.00
Actual	500,000,000.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The development objective of this DPO is to support Uzbekistan's economic transformation to a market economy.

(PAD p. 15). For this ICRR, the objectives of the operation are taken to be:

- Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework
- Supporting market formation for private sector development
- Enabling Job Creation and Managing Social Risks

b. Pillars/Policy Areas

The DPO had three objectives:

Objective 1 - Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework – was supported by three policy areas: (i) increasing economic growth by reducing exchange rate and monetary distortions, and greater private sector access to foreign exchange; (ii) improving financial sector stability to support a stable economic growth; and (iii) strengthening fiscal sustainability through tariff reforms and financial transparency of SOEs.

Objective 2 - Supporting market formation for private sector development – was supported by three policy areas: (i) increasing flexibility in domestic relative prices, along with a transparent business environment; (ii) fostering external trade to increase investment, growth and jobs, and market-based prices; and (iii) increasing agricultural productivity and efficiency to promote job growth and wages.

Objective 3 - Enabling job creation and managing social risks -was supported by two policy areas: (i) facilitating employment through greater options in contracting formal workers; and (ii) developing effective social safety nets.

c. Comments on Program Cost, Financing and Dates

This operation is an IDA US$ 500,000,000 credit. The Bank approved it on June 26, 2018, it became effective on July 20, 2018, and closed on Dec. 31, 2019. The amount disbursed was US$ 500,000,000.

3. Relevance of Design

a. Relevance of Objectives

Uzbekistan emerged from a legacy of central planning characterized by a highly distorted economy, with administered prices, trade controls, and a dominant state-owned enterprise sector. In late 2016, the authorities unexpectedly announced an ambitious strategy to transition the country to a market economy. In 2017, they liberalized the exchange rate, freed prices, reduced trade restrictions, and created greater space for the domestic private sector and foreign capital. This DPO aimed to bolster the initial reforms by focusing on three areas.

a. **Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework.**

As a legacy of the centralized economy, the Uzbek forex market had a very large parallel exchange rate premium. The government aimed to liberalize the foreign exchange market through a series of reforms, including the elimination of surrender requirements - supported by this DPO (along with a large devaluation of the foreign exchange rate and a move to a managed exchange rate float). In addition, the country had an extensive SOE sector. The operations of over 2,000 SOEs and other public sector activities collectively represent about half of Uzbekistan's GDP, and SOEs account for about 18 percent of employment. Among other subsidies, the large SOEs sector had preferential access to credit. Such exposure implied a significant credit risk for the financial sector, which this operation proposed to address by upgrading prudential regulations and stress testing.

a. **Supporting market formation for private sector development.**

The Uzbek private sector had limited access to necessary factors of production, including land, labor, and capital. State-owned enterprises (SOEs) dominated the country's areas of comparative advantage. Consequently, Uzbekistan's firm creation was among the lowest compared with regional and income-group peers; unemployment was high, and private firms remained disproportionately small. The state disproportionately directed resources to SOEs. In particular, the two largest energy SOEs, Uzbekenergo (UE) and Uzbekneftegaz (UNG), benefitted from several subsidies with significant fiscal implications, such as energy price subsidies. Similarly, Uzbekistan's agriculture sector had poor performance because of the misallocation of land, among other distortions. While horticulture was highly productive, generating 50 percent of the value of crop production and 40 percent of gross agricultural output from only about 10 percent of the total arable land, the dominant state agricultural system focused on cotton and wheat. Hence the operation included measures aimed at removing price controls, reducing tariffs, and liberalizing the cotton and wheat markets.

a. **Enabling Job Creation and Managing Social Risks.**

The reforms supported by this DPO could have possible negative impacts on vulnerable groups during the economic transition. Hence the operation included mitigating measures such as the scaling up of social safety nets and facilitating the movement of workers from low-value-added to high-value-added sectors.

Finally, the project's objectives are highly relevant to the Bank strategy and the current government strategy as expressed in the latest National Development Strategy for 2022–2026, which continues to put the market transition at the center of its development goals. In particular, the government aims to develop a robust national economy that ensures rapid growth through support to entrepreneurial activity, expanding exports, improving the investment climate, reducing inflation, and improving public debt management. In addition, the objectives are aligned with the analytical work of the Bank, as reflected in the latest SCD - *Toward a Prosperous and Inclusive Future* – which identifies a strong private sector and an enabling state as key pillars of the development process of Uzbekistan. These objectives require attention to the labor market, the regulatory environment, trade liberalization, a reduction in SOEs, the impact of public investments, and public accountability. (SCD, p 132)

b. Relevance of Prior Actions

Rationale

Objective 1:Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework
PA1. The Recipient, through the Central Bank of Uzbekistan (CBU) has eliminated all foreign exchange surrender requirements on all export earnings.
PA2. The Recipient, through the CBU has issued revised prudential regulations on banking capital adequacy, liquidity, and asset classification to improve compliance with international financial regulatory standards in line with the Basel Core Principles.
PA3. The Recipient has adopted measures requiring the CBU to conduct annual stress tests on commercial banks in line with international best practices.
PA4. The Recipient has adopted key measures to promote financial recovery and transparency of Uzbekenergo and Uzbekneftegaz, through: (i) approval of fuel and electricity tariff adjustments; (ii) introduction of differentiated electricity tariffs to improve efficiency; and iii) adoption of policy requirements for Uzbekenergo and Uzbekneftegaz on financial statement audits' compliance with the international financial reporting standards.
Objective 2: Supporting market formation for private sector development
PA5. The Recipient has (i) removed regulatory price controls for a list of key products, in particular production inputs and raw materials and; (ii) adopted requirements for a set of products to be transacted through commodity exchanges, in order to develop market institutions and to liberalize prices.
PA6. The Recipient has reduced average custom tariff rates.
PA7. The Recipient has increased the regulated purchase price paid for cotton closer to the international market price aimed to increase cotton productivity and to promote a more efficient use of resources (including land, water and fertilizer).
PA8. The Recipient has reduced the land area mandatorily assigned to grow cotton and grain in order to support the raise of productivity and to promote a more efficient use of resources (including land, water and fertilizer).
Objective 3: Enabling Job Creation and Managing Social Risks
PA9. The Recipient, through its Executive branch, has submitted to its Parliament, for approval thereof, the draft amendments to the Labor Code to expand formal contracts to part-time and temporary workers.
PA10. The Recipient has increased the social safety nets financial support for vulnerable groups, including low-income families and families with dependent children.

First objective: Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework.

- **PA1** required the elimination of the surrender requirement on foreign exchange. Foreign exchange surrender requirements represented a major distortion in the economy, requiring, in many cases, up to 100% of proceeds by exporters, often pre-paid before contract execution and delivery. The private sector had reduced access to foreign currency because of this surrender requirement. This harmed its ability to acquire imported inputs and created distortions in the forex market, representing an economic growth obstacle. Consequently, PA1 reduced foreign exchange distortions and facilitated access to foreign currency for the private sector (relevance of **PA1: satisfactory**).

- **PA2 and PA3** involved adopting regulations requiring banks to improve data quality submitted to the Central Bank to allow risk-based supervision by the Central Bank (PA2) and adopting measures to require the Central Bank to conduct annual stress testing of commercial banks (PA3). Direct lending to the SOE sector exposed the financial sector to underlying credit risk. Upgrading the prudential regulations and stress-testing would contain such potential financial risk. Through improved standards and required stress testing, PA2 and PA3 would increase financial sector stability (relevance of **PA2: satisfactory;** relevance of **PA3: satisfactory**).
- **PA4** required the reduction of current spending and net lending to the two largest SOEs and publishing IFRS-compliant financial statements for prior years. In 2017 budget outturns, current spending, and net lending to Uzbekenergo and Uzbekneftegaz amounted to 1.2% of GDP. The objective was to bring fiscal policy (including off-budget operations) towards a more sustainable path. State-owned enterprises (SOEs), and in particular Uzbekneftegaz (UNG) and Uzbekenergo (UE), were benefitting from below-cost recovery electricity and natural gas tariffs. This compromised their financial and technical performance and required the adoption of a plan to increase electricity and natural gas tariffs to achieve cost recovery and the application of differentiated tariffs to promote more efficient energy use. PA4 also required the introduction of international financial reporting standards, a practice rarely adopted in the country. The reform of the tariff structure in the two large SOEs aimed to harden budget constraints, facilitate competition in these markets by aligning prices to production costs, and reduce pressures for (subsidized) off-budget lending. (Relevance of **PA4: satisfactory**).

Second objective: supporting market formation for private sector development.

- **PA5** required the elimination of price controls on raw materials and inputs and promoted the exchange of products through a liberalized market. Goods subject to this action were critical raw materials and production inputs, including gasoline extraction, cathode copper, copper wire, secondary aluminum, metal zinc, technical kerosene, polypropylene, polyethylene, technical Sulphur, caustic ash, rolled ferrous metals, cement, cement clinker, construction glass, sugar, and barley. Price controls had limited opportunities for other economic agents to enter the market and compete. These reforms marked the shift from a state-led approach to managing the economy to one driven by the private sector. The actions of PA5 support more flexible domestic relative prices and a more transparent business environment. By doing so, these actions support the development of the private sector (relevance of **PA5: satisfactory**).

- **PA6** required reducing average tariff rates. In Uzbekistan, 10,800 industrial items were subject to import tariffs, with the weighted average import tariff estimated at 13.9 percent. The lowering of tariffs aimed at reducing peak rates to reduce tariff dispersion. This action aimed to improve the competitiveness of import-intensive companies to help develop the private sector by lowering production costs and increasing competition. By facilitating trade and improving the investment regime (bringing domestic prices closer to international prices), PA6 is appropriate for achieving the PDO (relevance of **PA6: satisfactory**).

- **PA7** and **PA8** sought to bring the regulated price of cotton closer to international prices (PA7) and increase the efficient use of resources to grow cotton and grain (PA8). Cotton was subject to regulated prices, and cotton and wheat were subject to regulated land allocation. In addition, since SOEs dominated agriculture, a significant share of the production was acquired by SOEs under direct, non-market allocation mechanisms, distorting the market, the efficient allocation of resources, and opportunities for other economic agents. These PAs eliminate price distortions and foster a flexible market to increase agricultural productivity and develop the private sector (relevance of **PA7: satisfactory**; relevance of **PA8**: **satisfactory**).

Third objective: enabling Job Creation and Managing Social Risks.

- **PA9** required submitting for parliamentary approval amendments to the labor code to expand formal contracts to part-time and temporary workers. The objective was to facilitate labor mobility and participation. Amendments to the Labor Code to issue formal contracts (PA9) would increase labor mobility and participation and enable job creation, an objective of the project. The Labor Code didn't apply to temporary and part-time jobs before this PA. Formalizing jobs better protects workers and may contribute to a more stable supply of jobs (relevance of **PA9: satisfactory**).

- **PA10** includes measures to support vulnerable groups through financial support. Price and utility reforms supported by the project negatively affect some low-income families. Hence, to assure the social acceptability of reforms, this PA10 aimed at mitigating these risks by providing vulnerable groups with direct financial support. To provide targeted assistance to low-income families, the government relied on a local public institution (Mahalla). However, the Mahalla system had several problems related to the targeting mechanisms, the processes followed, the integration of various benefits into a single well-targeted cash allowance, and the sizing of the benefit to better tailor benefits to specific conditions of beneficiary families. The operation did not address these constraints to ensure a proper allocation of benefits (relevance of **PA10: moderately satisfactory**).

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

First objective: Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework.

- **RI1** measures the percentage of foreign exchange earned by exporters and surrendered to the government. A reliable Central Bank source collected the data, which was easily accessible. It is noteworthy that the ICR is not clear on the RI used (see Section 10). The presumed indicator is not a repetition of the PA. The PA refers to eliminating this requirement, and the indicator measures the % of currency surrendered. (Relevance of **RI1: satisfactory**).
- **RI2** sought to measure the impact of PA2 toward the objective by verifying the delivery of the data needed (on capital, asset classification, and liquidity) by the Central Bank to properly assess the financial system's stability in line with the Basel Core Principles. PA2 called for revised prudential regulations to be approved, while RI2 measured that the required reporting called for under these regulations was taking place. (Relevance of **RI2: satisfactory**).
- **RI3** sought to measure the impact of PA3 toward the objective by verifying the implementation of at least four stress tests in 4 large representative banks. The indicator measures the actual

conduct of the verification by the Central Bank in line with the Basel Core Principles and collaboration with the Bank, allowing for measuring financial risks in the financial system. The DPO targeted four banks representative of three different types of financial institutions: two large state-owned banks, a joint-stock bank, and a private bank. The tests assumed a significant depreciation of the local currency, a slowdown of economic activity, and an increase in CBU's interest rate. (Relevance of **RI3: satisfactory**).

- **RI4** sought to measure the impact of PA4 toward the objective by measuring the effects of measures aiming at ensuring financial recovery of the two largest SOEs through the approval of fuel and electricity tariff adjustments and the introduction of differentiated electricity tariffs which would allow them to achieve cost-recovery and realign revenues with costs. However, while the RI captured budget outturns, it does not directly measure to effect of the PA on the SOEs' financial positions (relevance of **RI4: moderately satisfactory**).

Second objective: supporting market formation for private sector development.

- **RI5** sought to measure the impact of PA5 toward the objective by measuring the value of annual trading in the Commodity Exchange for a group of deregulated products. The indicator measures the outcome of measures supported by the PA (eliminating price controls and improving regulations for Commodity exchange), which aim at creating functioning markets where the government doesn't subsidize prices to foster the participation of the private sector. However, it does not control for other factors that could impact the value of trading, such as changes in exchange rates. It would be better if the indicator was scaled (like the share of exports). The data source is reliable – the Uzbekistan Commodity Exchange website and easily available (relevance of **RI5: moderately satisfactory**).
- **RI6** sought to measure the impact of PA6 toward the objective by measuring the average custom tariff on imported products. However, the indicator used measures the average custom tariff for all products using the WTO as a source, not just the list of intermediate and raw materials, which was the intention of the PA (relevance of **RI6: unsatisfactory**).
- **RI7** sought to measure the impact of PA7 toward the objective, by measuring the difference between the domestic and international cotton prices. The indicator measures the extent of price controls that prevent the efficient use of resources. The source of the data is reliable - the Ministry of Agriculture – and consistently available (relevance of **RI7: satisfactory**).
- **RI8** sought to measure the impact of PA8 toward the objective by measuring the hectares of land mandated for growing cotton or grain. These indicators measure the reduction in land compulsorily allocated for cotton and grain production to promote productivity and efficiency in the use of resources. However, the measure does not ensure that landowners use land efficiently. The data comes from a reliable and available source, the Ministry of Agriculture. (relevance of **RI8: moderately satisfactory**).

Third objective: enabling Job Creation and Managing Social Risks.

- **RI9** sought to measure the impact of PA9 toward the objective by measuring the number of employees with part-time and temporary formal employment contracts. The RI adequately measured the impact of the PA (in expanding formal employment) Data comes from the Ministry of Labor (relevance of **RI9: satisfactory**).
- **RI10** sought to measure the impact of PA10 toward the objective by measuring the number of beneficiaries of social safety nets, as identified by the Mahalla system, which is linked to the

objective of managing social risks. However, the indicator does not target those who would have been impacted by the price and utility reforms. The data is reliable and is estimated by the Bank staff using data from the Ministry of Finance (relevance of **RI10: moderately satisfactory**).

Description [assigning a number to each RI]	Associated PA(s)	RI Relevance	Baseline [including units and date]	Target [including units and date]	Actual Value as of Target Date	Actual Change in RI Relative to Targeted Change	Most Recent Value Available [if not target date]	RI Achievement Rating
Objective 1: Strengthening the foundations for sustainable economic growth and a resilient macro-financial framework								
RI1: Surrender requirements on foreign exchange export earnings (percentage)	PA1	S	25 01-Sep-2017	0 01-Jan-2019	0 08-Dec-2021	100% of targeted change		High
RI2: Commercial bank reporting framework on capital, asset classification, and liquidity (Yes/No)	PA2	S	No 01-Sep-2017	Yes 01-Jan-2019	Yes 08-Dec-2021	100% of targeted change		High
RI3: Stress testing of commercial banks and the conclusion of at least one round of stress tests on four representative commercial banks (Yes/No)	PA3	S	No 01-Sep-2017	Yes 01-Jan-2019	Yes 08-Dec-2021	100% of targeted change		Substantial
RI4: Augmented budget outturns on tax expenditures, current spending and net lending to Uzbekenergo and Uzbekneftegaz (share of GDP)	PA4	MS	1.20 01-Sep-2017	0.80 01-Jan-2019	0.10 08-Dec-2021	Over 100% of targeted change		Substantial

Objective 2: Supporting market formation for private sector development								
RI5: Annual total trading of products with deregulated prices in Commodity Exchange (number, '000 UZS)	PA5	MS	8 billion 01-Sep-2017	16 billion 01-Jan-2019	22.854 billion 08-Dec-2021	Over 100% of targeted change		High
RI6: Average custom tariff rate (percentage)	PA6	U	15.3 01-Sep-2017	7.99 01-Jan-2019	7.6 08-Dec-2021	Over 100% of targeted change		Modest
RI7: Difference between domestic average price for cotton and international price	PA7	S	20 01-Sep-2017	10 01-Jan-2019	0 08-Dec-2021	Over 100% of targeted change		High
RI8: Mandatory hectares for growing cotton (Hectares)	PA8	MS	1,285,500 hectares 01-Sep-2017	1,150,000 hectares 01-Jan-2019	1,005,000 hectares 08-Dec-2021	Over 100% of targeted change		High
AND RI8: Mandatory hectares for growing grain (Hectares)	PA8	MS	1,329,500 hectares 01-Sep-2017	1,289,500 hectares 01-Jan-2019	1,239,000 hectares 08-Dec-2021	Over 100% of targeted change		High
Objective 3: Enabling Job Creation and Managing Social Risks								
RI9: Number of employees with part-time and temporary formal employment contracts (Number)	PA9	S	0 01-Sep-2017	90,000 01-Jan-2019	1,000,000 08-Dec-2021	Over 100% of targeted change		High
RI10: Beneficiaries of social safety net programs (Number)	PA10	MS	435,000 01-Sep-2017	500,000 01-Jan-2019		Over 100% of targeted change	1,560,000 13-May-2022	Substantial

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Strengthening the macro-financial foundations for sustainable economic growth.

Rationale

The Bank intended to achieve the objective through four prior actions and was measured by four results indicators. The 'elimination of all foreign exchange surrender requirements on all export earnings' had a baseline value of 25 percent surrender requirement on foreign exchange from export earnings (September 2017), with a target of 'no surrender requirement on foreign exchange from export earnings.' At the time of the recording (June 2019) the objective of eliminating this requirement was achieved **(RI1 achievement rating: high)**. Second, the government has revised prudential regulations on banking capital adequacy, liquidity, and asset classification to improve compliance with international financial regulatory standards in line with the Basel Core Principles. The baseline (September 2017) was 'Current reporting framework on capital, asset classification, and liquidity does not ensure a proper reflection of banks' risks.' The target was 'Improved data quality from banks is implemented and permits adoption of risk-based supervision plan for onsite inspections.' (June 2019) The target was achieved **(RI2 achievement rating: high)**. Third, 'the government has adopted measures requiring the CBU to conduct annual stress tests on commercial banks in line with international best practices.' The baseline was 'No stress testing of Banks.' (September 2017) The target was 'The CBU has developed guidelines for regular stress testing of commercial banks and has conducted at least one round of stress tests on four representative commercial banks.' (June 2019) The target was achieved **(RI3 achievement rating: Substantial)**. A fourth prior action is promoting financial recovery and transparency of two SOEs (Uzbekenergo and Uzbekneftegaz), through fuel and electricity tariff adjustments and financial statement audit compliance. The RI to measure efficacy-related statements of budget outturns, with a baseline value of ‘2017 augmented budget outturns on tax expenditures, current spending, and net lending to Uzbekenergo and Uzbekneftegaz amount to 1.2% of GDP. The SOEs haven’t published IFRS-compliant financial statements (December 2017), and a target of ‘2018 augmented budget outturns on tax expenditures, current spending, and net lending to Uzbekenergo and Uzbekneftegaz amount to less than 0.8% of GDP.’ The government published IFRIS-compliant financial statements for prior years (2015 and 2016). The government achieved the objective well above target, although the measure did not directly capture the impact of tariff adjustments **(RI4 achievement rating: Substantial)**.

The government achieved all result indicators on time. The abolition of the surrender requirement continues to hold. Further, the CBU keeps collecting data from banks and has expanded stress testing to all commercial banks. The targeted improvement on the budget outlays of the two major SOEs was met in end-2018 and has not been exceeded since, although the measures did not capture the impact of tariffs adjustments. All these measures strengthened the macro-financial resilience of the Uzbek economy.

Rating

Satisfactory

OBJECTIVE 2

Objective

Supporting market formation for private sector development.

Rationale

The indicators used for this objective were five. First, 'The government has (i) removed regulatory price controls for a list of key products, in particular, production inputs and raw materials, and; (ii) adopted requirements for a set of products to be transacted through commodity exchanges, to develop market institutions and to liberalize prices.' The baseline (2017) was 'Annual total trading of products with deregulated prices (gasoline extraction, cathode copper, copper wire, secondary aluminum, metal zinc, technical kerosene, polypropylene, polyethylene, technical Sulphur, caustic ash, rolled ferrous metals, cement, cement clinker, construction glass, sugar, barley) in Commodity Exchange amounts to UZS 8 trillion.' The target was 'Annual total trading of products with deregulated prices (gasoline extraction, cathode copper, copper wire, secondary aluminum, metal zinc, technical kerosene, polypropylene, polyethylene, technical Sulphur, caustic ash, rolled ferrous metals, cement, cement clinker, construction glass, sugar, barley) in Commodity Exchange increases to UZS 16 trillion.' (2018) The target was achieved **(RI5 achievement rating: high)**. Second, 'The Recipient has reduced average custom tariff rates.' The baseline (September 2017) was 'Average custom tariff rate is 15.3%.' The target was 'Average custom tariff rate is less than 8%.' (June 2019). The government achieved the target in part achieved because it measured all the imports not only the deregulated goods **(RI6 achievement rating: Modest)**. Third, 'The Recipient has increased the regulated purchase price paid for cotton closer to the international market price aimed to increase cotton productivity and to promote a more efficient use of resources (including land, water and fertilizer).' The baseline (September 2017) was the 'Difference between domestic average price for cotton and international price is more than 20 percent.' The target was 'Difference between domestic average price for cotton and international price is 10 percent or less.' (June 2019) The target was achieved **(RI7 achievement rating: high)**. Fourth and fifth, 'The Recipient has reduced the land area mandatorily assigned to grow cotton and grain to support the rise of productivity and to promote a more efficient use of resources (including land, water and fertilizer).' The baseline was 'Mandatory hectares for growing is 1,285,500 ha. for cotton and 1,329,500 ha. for grain.' (September 2017) The target was 'Mandatory hectares for growing cotton is reduced by 135,000 ha. and grain by 40,000 ha.' (June 2019) The target was achieved **(RI8 achievement rating: high)**.

The government achieved all result indicators on time. However, in the commodity exchanges dominant purchasers or suppliers such as SOEs stifle competition and exert near-monopoly or near-monopsony powers. This did not impact the project's tariff result indicator, which remains below 8 percent, although the indicator has some limitations. By 2021 the market-based reforms of reduction in mandatory cotton acreage by 20% since 2016 and near convergence of the domestic price with export parity price and moving up the value chain so that mainly processed cotton is exported (in place of raw cotton previously). Acreage reduction is less with grains due to food security concerns, hindering the transition to higher-value products such as horticulture. Overall, the DPO met the goal of supporting private-sector development.

Rating

Satisfactory

OBJECTIVE 3

Objective

Enabling Job Creation and Managing Social Risks

Rationale

The indicators used for this objective were two. First, 'Number of employees with part-time and temporary formal employment contracts.' The baseline (September 2017) was zero - No employees with part-time and temporary formal employment contracts.' The target was 'Employees with part-time and temporary formal employment contracts are 90,000 or more, including the participation of female workers of 30,000 or more' (June 2019). The operation achieved the target. PA9 supported preparation of relevant amendments to the labor code and submission to Parliament. These were adopted, and provided the legal basis for the new contracts **(RI9 achievement rating: high)**. Second, 'The Recipient has increased the social safety nets financial support for vulnerable groups, including low-income families and families with dependent children.' The baseline (March 2017) was 'Budget includes funding for 435,500 beneficiaries, including low-income families and families with dependent children.' The target was 'Budget includes funding for 500,000 beneficiaries, including low-income families and families with dependent children.' (June 2019). The target was achieved **(RI10 achievement rating: Substantial)**.

The government achieved all result indicators on time. The government completed a significant overhaul of the labor code in 2021 (supported under a subsequent DPO). Over one million workers are now estimated to have these contracts. Similarly, over 1.5 million families are beneficiaries of social protection reforms. However, the targeting of beneficiaries presented some known shortcomings that the project did not address.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Most of the targets in the operation were achieved, with most result indicators being relevant to the project's objectives. In a few instances the indicators could not accurately measure the objective of the PA, so other information had to be brought in to supplement the RI. Objectives 1 and 2 are rated satisfactory, and Objective 3 is rated moderately satisfactory, giving an overall efficacy rating of satisfactory.

Overall Efficacy Rating
Satisfactory

6. Outcome

Rationale

The relevance of prior actions was satisfactory, and efficacy was satisfactory. The operation supported the government of Uzbekistan in moving towards a market economy by removing macro distortions and risks, stimulating private sector activity, and safeguarding those vulnerable to transition shocks. All actions were relevant, and results continue to be relevant. The Bank linked most prior actions to achieving project objectives, and most indicators were appropriate.

a. Rating

Satisfactory

7. Risk to Development Outcome

IEG agrees with the ICR that Uzbekistan's authorities are strongly committed to their reform vision and 2022-2026 strategy, implementing sequenced reforms enhancing market liberalization, increasing productivity, improving the investment climate, supporting exports, and attracting FDIs in partnership with the Bank. These reforms are encountering popular support, as shown by numerous nationally representative surveys of public sentiment to reforms conducted by the World Bank, where over 80 percent of the population believes that the country is headed in the right direction.

Some risks remain; for example, SOE reforms are only at an initial stage, and the transition will require carefully designed and sequenced reforms on competition and budget constraints. The risk of elite capture is still present given the high centralization and low administrative capacity. Finally, regional instability (Afghanistan, Ukraine, global uncertainty) can increase the risk of sustained reforms if these external shocks compromise the economic dividends of the reforms and thus generate popular discontent.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The SCD informed the operation, along with technical work on foreign exchange convertibility, financial sector strengthening, energy pricing and efficiency, investment climate, entrepreneurship, and agricultural modernization, as well as the results of the Performance and Learning Review (2018). These analytical pieces properly position the current status of the country's economy (being in an early stage of transition) and properly identify the relevant constraints, risks, and policy options. Most of the PAs and RIs are based on good analytical work. However, there are instances where the PAs and RIs do not correspond to the operation's objective, such as the import tariff reduction on all imported goods or the targeting of beneficiaries. In addition, the PAD makes a very short reference to three high-level lessons from previous experience in its design (PAD p 48). The macro-economic environment was adequate for the operation, given the positive growth prospects, low inflation expectations, and prudent macro policies, and benefitted from a well-coordinated dialogue with the IMF. Identifying risks was of good quality and depth, but mitigating solutions relied heavily on government commitment with specific solutions only for capacity constraints. The Bank didn't initially assess governance risks correctly and subsequently had to raise the risk rating from moderate to substantial.

Furthermore, implementation risks will become more prominent as the reforms become more challenging (e.g., SOE, banking and land reforms). On one occasion, the Bank didn't take known risks into account: the inadequate targeting mechanism adopted (the Mahalla).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR reports briefly on implementation (ICR page 19). It states that the government's commitment and the presence of the TTL and key sector staff in the field facilitated the implementation of the reforms. It adds that the government consulted with the Bank team in formal and informal settings like a think tank, drawing on their global experience. It states that Bank supervision was critical to maintain technical quality and ensure government ownership. However, there is no evidence to support such claims in the ICR or operations portal to document these conclusions. The ICR states that the Ministry of Finance successfully coordinated reforms with other agencies and development partners. However, monitoring and evaluation focused on actions rather than results. Proactive use of M&E to anticipate problems and provide solutions was lacking. Good practice M&E systems need to be developed.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

The operation design drew from analytical work but presented a general description of previous lessons that informed the design. The ICR discussed potential risks but identified few mitigating solutions while it benefitted from consultations with the government and partners. The ICR makes broad statements on implementation without providing evidence of specific examples of good practice.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The TTL confirmed that jobs increased from around 200,000 to over 600,000 from 2017 to today, although it is impossible to attribute the increase to any specific reform.

b. Environmental

The TTL mentioned that there were improvements after the DPOs. For example, water usage was more efficient, land improvement practices were applied, and energy intensity decreased. However, the ICR doesn't present any actual evidence of such impacts.

c. Gender

NA

d. Other

NA

10. Quality of ICR

Rationale

The ICR provides a good account of the project design, implementation, and progress toward expected outcomes. However, the reporting on efficacy could have provided more detailed evidence, for example, on targeting social safety net beneficiaries. Similarly, the discussion on Bank performance does not provide enough details on the underlying analytical work underpinning the operation. The TTL told IEG that such details were not included to avoid a lengthy ICR but can easily be found in the project document. Other shortcomings included the lack of well-articulated lessons spelling out what can be learned from this operation. Finally, the articulation of the RI for PA1 is confusing. On page 10, the ICR states that the RI's target is "No surrender requirement on foreign exchange from export earnings. (June 2019)" giving the impression that the elimination of the requirement was the RI. This could not be possible since the PA1 eliminated the requirement. However, on page 22 - "Annex 1 Results Framework" - the ICR reports as RI1 the percentage of forex surrendered (not the elimination of the rule), which is a better indicator than just the elimination of the rule.

IEG adds that the TTL was very approachable and willing to help and provide additional information.

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	M&E quality was less than expected, some PAs and RIs are not linked to the objectives and in one occasion one risk was not properly taken into account.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	

12. Lessons

There are no detailed lessons in the ICR, only findings. The discussion is general. For example, the text "The Bank's approach has also emphasized complementary institutional reforms …." does not identify or explain 'how' this happened.

IEG finds that one lesson is warranted: RIs have a critical role in evaluating the success of DPOs in achieving their objectives when they are properly framed to measure the results of supported reforms. In the case of this

DPO, while most RIs were properly framed, there were instances where the RIs adopted were not linked enough to the supported reforms. For example, the reduction of import tariffs was not tailored to the imported goods representing intermediate and raw materials (objective of the operation) but referred to all imported goods. Also, the payment of benefits to low-income families missed a proper targeting system (or failed to improve the existing targeting system, which was known to be not accurate).

13. Project Performance Assessment Report (PPAR) Recommended?

No