



Country Partnership Strategy

May 2019

Uzbekistan, 2019–2023 —Supporting Economic Transformation

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 May 2019)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.00012
\$1.00	=	SUM8,461

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement (French Development Agency)
CAPS	–	Central Asia Power System
CAREC	–	Central Asia Regional Economic Cooperation
CO ₂	–	carbon dioxide
CPS	–	country partnership strategy
EBRD	–	European Bank for Reconstruction and Development
GDP	–	gross domestic product
IFIs	–	international finance institutions
JICA	–	Japan International Cooperation Agency
NSO	–	nonsovereign operation
OCR	–	ordinary capital resources
O&M	–	operation and maintenance
PFM	–	public finance management
PPP	–	public–private partnership
PSD	–	private sector development
SDG	–	Sustainable Development Goal
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
SWM	–	solid waste management
TA	–	technical assistance
UNDP	–	United Nations Development Programme
WSS	–	water supply and sanitation
WTO	–	World Trade Organization

NOTE

In this report, “\$” refers to United States dollars.

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COUNTRY AT A GLANCE

Economic	2013	2014	2015	2016	2017	2018
GDP (\$ billion, current)	57.6	63.0	66.8	67.4	58.9	50.5
GDP per capita (\$, current)	1,909	2,046	2,141	2,119	1,824	1,535
GNI per capita (\$, atlas method)	1,970	2,110	2,170	2,230	2,000	...
GDP growth (% , in constant prices)	8.0	8.0	7.9	6.2	4.5	5.1
Agriculture	6.8	6.9	6.8	6.8	1.2	0.2
Industry	7.0	5.5	5.4	5.1	5.2	10.6
Construction	18.4	17.6	18.8	7.2	6.0	9.9
Services	7.8	8.5	8.4	6.6	6.4	5.4
Gross domestic investment (% of GDP)	30.3	30.1	26.9	24.9
Gross domestic saving (% of GDP)	33.1	31.8	27.6	25.7
Consumer price index (annual % change)	11.7	9.1	8.4	8.0	13.7	17.9
Liquidity (M2) (annual % change)	22.5	14.9	25.2	23.5	40.2	14.4
Overall fiscal surplus (deficit) (% of GDP) ^a	0.6	1.0	(0.1)	0.2	0.7	0.5
Merchandise trade balance (% of GDP)	2.4	(2.8)	(3.5)	(3.5)	(3.3)	(12.0)
Current account balance (% of GDP)	1.6	1.4	0.7	0.6	2.9	(7.0)
External debt service (% of exports of goods and services)	4.1	6.5	4.7	5.2	13.6	...
External debt (% of GDP)	13.0	13.3	19.3	21.7	26.5	34.7
Poverty and Social	2010	Latest				
Population (million)	29.1		33.3	[2019]		
Population growth (annual % change)	3.0		1.8	[2018]		
Maternal mortality ratio (per 100,000 live births)	21.6		19.3	[2018]		
Infant mortality rate (below 1 year/per 1,000 live births)	31.6		10.3	[2018]		
Life expectancy at birth (years)	70.0		73.9	[2018]		
Adult literacy (%)			99.9	[2015]		
Primary school gross enrollment (%)	93.7		103.1	[2017]		
Child malnutrition (% below 5 years old)			1.4	[2016]		
Population below poverty line (%)	17.7		11.4	[2018]		
Population with access to safe water (%)	91.4		91.4	[2012]		
Population with access to basic sanitation (%)	100.0		100.0	[2015]		
Environment	2010	Latest				
Carbon dioxide emissions (tons)						
Carbon dioxide emissions per capita (tons)	3.6		3.4	[2014]		
Forest area (million hectares)	3.3		3.2	[2016]		
Urban population (% of total population)	51.0		50.5	[2019]		
ADB Portfolio (active loans)^b	As of 31 December 2018					
Total number of loans	26					
Sovereign	26					
Nonsovereign						
Total loan amount (\$ million) ^c	4,436.6					
Sovereign	4,333.1					
Nonsovereign	103.5					
Disbursements						
Disbursed amount (\$ million, 2018)	656.6					
Disbursement ratio (%) ^d	15.3					

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, GDP = gross domestic product, GNI = gross national income, M2 = broad money.

^a Refers to the balance of consolidated budget, comprising the state budget and specialized public funds.

^b Covers Asian Development Fund and ordinary capital resources financing for projects and programs.

^c Net of cancellations.

^d Refers to disbursement ratio excluding policy-based lending. The ratio, including policy-based lending, would be 28.1%.

Sources: *Asian Development Outlook* (April 2019); International Monetary Fund (IMF) *Regional Economic Outlook* (November 2018); IMF Article IV Consultation Staff Report for Uzbekistan (May 2018); IMF Article IV Concluding Statement (March 2019); Ministry of Economy and Industry (February 2019); State Statistics Committee of Uzbekistan; World Development Indicators database. <http://data.worldbank.org/country/uzbekistan>; and World Bank online databases.

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. Uzbekistan has embarked on significant reforms since early 2017, aiming to improve the lives of ordinary citizens, enable business development, and open up to neighbors. The scale of changes is unprecedented. The new government aspires to modernize the country and to move it toward upper middle-income status. The formulation of the country partnership strategy (CPS) of the Asian Development Bank (ADB) is timely for supporting this reform agenda through investment financing, policy support, and capacity development.

2. **Key development challenges.** The population's high share of youths coupled with largely jobless economic growth is a key concern for policy makers. Uzbekistan's urbanization rate, albeit modest, is rising, creating a burden on urban systems. Old and deteriorating infrastructure—especially in small towns and rural areas, which are home to half of the country's population—hinder the improvement of living standards and the development of businesses. Uzbekistan is doubly landlocked and prone to facing increasingly limited water resources as a result of climate change impacts. The drying up of the Aral Sea and land degradation are the key environmental challenges.

3. The announced reforms aim at promoting the private sector while reducing the state's role in the economy. There are, however, significant challenges associated with a public administration and institutions that are far from offering the most effective public services. Many state-owned enterprises (SOEs), often combining regulatory and operational functions, still dominate key sectors of the economy, including energy. Various privileges granted to SOEs constrain the expansion of private initiatives in these sectors. Despite the substantial changes since 2017, Uzbekistan needs to improve its performance in governance—e.g., effectiveness, rule of law, and accountability—and create an enabling environment for private sector development (PSD) and competition. In addition, current economic reforms put a significant strain on public finance. It is essential to mitigate the adverse effects of the reforms on low-income households, such as price increases and elimination of jobs stemming from structural changes, and to avoid rising insecurity and inequality.

4. **ADB strategic objectives and value-addition.** The key objective of ADB's CPS is to support the country's movement toward a vibrant and inclusive market economy, including the transformation of the state's role. The government's ultimate objectives of improving the quality of people's lives and creating decent jobs can only be achieved by developing a robust private sector and reducing the state's pervasive footprint in the economy. ADB will assist this transition by providing policy advice, investments, and capacity development in three strategic areas: (i) supporting private sector development; (ii) reducing economic and social disparities; and (iii) promoting regional cooperation and integration.

5. The CPS supports the government's reform vision, embraced in several strategic documents (section III B). It is also in line with ADB's Strategy 2030, in particular, with its operational priorities on strengthening governance and institutional capacity, addressing remaining poverty and reducing inequalities, promoting rural development, and fostering regional cooperation and integration.¹ The choice of ADB assistance areas during the CPS period is governed by the government's readiness to pursue wide-ranging reforms, coordination with development partners, and ADB's value addition potential. ADB has had a long and successful presence in Uzbekistan and in Central Asia, and vast experience in reforming former Soviet Union

¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

economies, and is seen as a trusted partner in regional issues. As a leading partner in infrastructure development, ADB has accumulated in-depth knowledge and experience, and is best positioned to provide integrated solutions—combining multisector approaches and advanced technologies with finance, partnerships, and knowledge—specifically suited to Uzbekistan.

II. COUNTRY DEVELOPMENT CONTEXT

6. Uzbekistan is a lower middle-income country and the most populous in Central Asia and the South Caucasus. Unlike other former Soviet Union countries, its economic transformation after independence was gradual and characterized by preferential access to resources by selected companies, constraining competition, and foreign exchange controls. Over time, the economic system became increasingly rigid, undermined by extensive state involvement, poor governance, and low foreign investment. Continued reliance on state control, particularly in agriculture and its cotton subsector, resulted in high levels of rural poverty and outmigration of labor.

7. Economic policies changed drastically in late 2016, when a new administration came to power. Uzbekistan embarked on radical reforms to improve the lives of ordinary citizens, create an enabling environment for businesses, and strengthen ties with Central Asian countries. Among the most salient economic reforms were the unification of foreign exchange rates in September 2017, which played a key role in reducing macroeconomic distortions, the simplification of business procedures, and the liberalization of prices.² Other important changes were tax reforms, improvement in the quality and disclosure of official statistics, and agricultural diversification.

8. Uzbekistan plays a critical role in Central Asia. The new administration formally identified Central Asia as a foreign policy priority and undertook significant steps to open up the economy to its neighbors. Regional trade increased and Uzbekistan resumed energy trade within the Central Asia Power System (CAPS). The government started the process of acceding to the World Trade Organization (WTO) in earnest, streamlined the border control systems, and allowed visa-free travel for many countries.³

9. The structure of the economy has not changed much since 2010, with agriculture, industry, and services each still contributing about a third of gross domestic product (GDP). Gold, natural gas, and services dominate the country's exports, while manufacturing was developed through the state-led industrial policy in areas such as automobiles, chemicals, and food products. Services are dominated by retail trade and transportation.

10. GDP growth is reported at 5.1% in 2018, and projected to average 5.4% in 2019–2020. It is driven primarily by industry and services on the supply side (manufacturing, quarrying and mining, transport, and construction), and by public investments on the demand side. Inflation remains high at 17.9% in 2018, mainly reflecting adjustments of previously distorted relative prices and the subsequent tariff hikes of utilities. Upward pressures on prices remain, with the consumer price index projected at 16% in 2019 and 14% in 2020, as periodic adjustments of prices and wages persist over the medium term.

² The average official exchange rate per US dollar was recorded at SUM8,069 in 2018, from SUM 2,967 in 2016.

³ Important developments also included border delineation with the Kyrgyz Republic and Kazakhstan, hydropower developments with Tajikistan, and energy trade with Afghanistan. At the initiative of Uzbekistan's President, the first Central Asian Leaders' Summit in 9 years was held in 2018, which paved the way for open discussions on the transboundary use of water resources and the sharing of electricity. New bus routes, and regular flights and train services started functioning between the neighboring countries.

11. Uzbekistan has historically pursued a conservative fiscal policy, and its current macroeconomic stance remains overall prudent, as evidenced by the relatively low (by international standards for a lower middle-income country) external debt at an estimated 34.7% of GDP (as of year-end 2018), low public debt at about 20% of GDP, and healthy foreign exchange reserves.⁴ In 2018, the government launched a comprehensive reform of tax policy and administration. The new tax regime is expected to ensure equal treatment for state-owned and private businesses and to boost economic activities, but its implementation faces administrative hurdles in the short term.⁵ Other challenges include the remaining credit market segmentation and a need for better transparency of public finance.⁶ The government is planning to bring all its operations on-budget in 2019. It successfully launched a debut euro bond issue on international capital markets in February 2019.⁷

12. The poverty level recorded in 2018 was 11.4%, largely driven by jobless economic growth, as well as low productivity in labor-intensive agriculture, existence of informality in the labor market, and regional disparities in endowments (para. 18). The unemployment rate is reported at 9.3% (as of mid-2018); labor migration and the extent of the informal economy are high.⁸ Remittances form an important component of average household incomes.

13. The country made modest progress in reducing income inequality during 2012–2016, according to official data. Although the Gini coefficient moderated from 0.30 in 2011 to 0.26 in 2016, inadequate data makes it difficult to measure income inequality in Uzbekistan. According to the human development index, Uzbekistan is a *high* human development country, with an index equal to 0.710 (ranked 105th out of 189 countries). Challenges persist with regard to gender equality—including the existence of traditional values that affect the distribution of gender roles, segregation of women in the labor market, disparities in property ownership, and asymmetry in higher segments of decision making and managerial positions.⁹ Lack of sex-disaggregated data hinders the evaluation of gender disparities. To tackle the key problems, the government adopted an action plan in 2018 to promote women’s employment and private entrepreneurship, improve women’s reproductive health, and strengthen the institution of family.

⁴ Foreign exchange reserves stood at \$27 billion as of year-end 2018, covering about 17 months of imports.

⁵ For example, some 28,000 firms were to be added to the standard tax regime in early 2019, although tax administration capacity remains constrained.

⁶ Still about 60% of credit is funded by the state and allocated on preferential terms. It is imperative to consolidate traditional fiscal operations with the various policy-based investments by the state.

⁷ The bond yields 5.4% over 10 years, and was heavily oversubscribed. The first sovereign ratings by Fitch and Standard & Poor’s—both *BB-* with a stable outlook—are just below investment grade but in line with other emerging markets. Given the country’s ample foreign exchange reserves, tapping the international capital markets signals the government’s intention to create an additional layer of accountability, especially to attract foreign investors.

⁸ Ministry of Employment and Labor Relations. 2018. *Household Survey on Employment Issues (July–August 2018)*. Tashkent. The youth unemployment rate is especially high, estimated at 17.4% per year during 2012–2017. More than half of the workforce is estimated to work in the informal economy. About 2 million Uzbekistan citizens were estimated to live abroad in 2017 (European Bank for Reconstruction and Development [EBRD]. *Transition Report 2018–2019*. London). Unofficial figures suggest that as many as 4 million people (of a total workforce of 11.6 million) are working abroad, mainly in the Russian Federation, Kazakhstan, and the Republic of Korea.

⁹ ADB. 2018. *Uzbekistan Country Gender Assessment Update*. Manila. As of 2015, the country was ranked 57th out of 188 countries in terms of the gender inequality index value (0.287). According to EBRD’s household survey (Life in Transition), only about 33% of women were economically active in 2016, against 74% of men. United Nations Development Programme (UNDP). 2018. *Sustainable Employment in Uzbekistan*. Tashkent. The country underperformed its peers in the Europe and Central Asia region in terms of maternal mortality ratio (36 deaths per 100,000 live births) and share of women in parliament seats (16.4% of total seats). UNDP. 2016. *Human Development Report 2016: Human Development for Everyone*. New York.

14. Uzbekistan endorsed the Sustainable Development Goals (SDGs) in 2015, and in 2018 adopted its national goals and targets until 2030.¹⁰ The targets are ambitious, focusing on the development of physical and human capital and on improving the environment. To reach the national SDG targets, the government established a coordination council and developed a road map for implementing and monitoring the SDGs. According to the road map, the government will develop annual implementation plans and indicators, and mainstream the national SDGs in the national census and state budget by 2030.¹¹

15. **Key challenges.** The country needs to overcome considerable long-term (structural) and medium-term challenges. Its demographic situation with a high share of youths coupled with largely jobless economic growth is a key area of concern for policy makers. From 2012 to 2017, the working-age population grew by 1.7 million, whereas employment growth was only 0.2 million, excluding migrants and informal workers. Although somewhat mitigated by outmigration, the lack of meaningful employment prospects, especially for the young, may result in an unrealized demographic dividend at best and, at worst, lower the country's potential output and deepen social concerns. Uzbekistan must find ways of creating jobs for its significant working-age population.

16. A growing rural population, coupled with mechanization and diversification in agriculture, results in more people migrating to urban areas.¹² This burdens hard and soft urban infrastructure and requires modern solutions, including integrated urban planning and management alongside strategic policies for urban–rural integration.

17. Old and deteriorated infrastructure (power supply, roads, irrigation and drainage, water supply and sanitation [WSS], and solid waste management [SWM]) outside the capital city, especially in small towns and in rural areas, is a constraint to businesses and vibrant economic growth. More than 40% of energy sector capacity is in plants aged 40–50 years, which require urgent replacement or major rehabilitation; transmission and distribution losses are high at more than 20%; and natural gas supply suffers from seasonal low pressures and interruptions. Many WSS infrastructure facilities have deteriorated to the point of dilapidation. Irrigation systems are outdated and rely on old and inefficient pumps that consume 20% of the country's electricity.¹³ Irrigation and agricultural practices are vulnerable to future changes in temperature and water availability as a result of climate change.¹⁴

18. The disparity in the quality of public infrastructure and social services between the capital city and small towns and rural areas is evident to any visitor to Uzbekistan. Poverty is concentrated mainly in rural areas, distant from centers of economic activity and with inferior infrastructure and public services. At 15.1%, rural poverty was almost 6% higher than in urban areas in 2016 (latest available data). WSS, gas, and electricity networks do not adequately cover the rural population and are of inferior quality.¹⁵ About half of the districts in Uzbekistan lack all-

¹⁰ Government Resolution No. 841 *On Measures to Implement the National SDG Goals and Targets until 2030*. October 2018.

¹¹ Established in March 2019, a web portal of the State Statistics Committee (<http://nsdg.stat.uz/>) reports on progress of localization and achievement of SDGs in Uzbekistan.

¹² Tashkent is the main source of economic activities and therefore the main destination for rural populations.

¹³ Losses arising from the outdated irrigation systems and their poor management were estimated at about \$1.7 billion annually, or 8% of GDP.

¹⁴ M. Punkari et al. 2014. *Climate Change and Sustainable Water Management in Central Asia*. ADB Central and West Asia Working Paper Series No. 5. Manila.

¹⁵ For water supply, central network coverage is 50% in rural areas and 84% in urban areas; for sanitation, the coverage is 9% (rural) and 55% (urban), and for natural gas, it is 63% against 86%. Power outages are severe in rural areas during cold seasons, and gas supplies similarly suffer from seasonal low pressure and interruptions.

weather access to the provincial and national roads, hampering the economic activities of small farms. Public education and health care in many rural areas are also inadequate.¹⁶ To overcome these problems, the government launched the *Obod Qishloq* (Prosperous Village) program aimed at rehabilitating infrastructure in rural areas.

19. **Constraints to private sector development.** The state still plays a significant role in Uzbekistan's economy. More than 8,000 SOEs dominate the economy, particularly in energy, metallurgy and mining, telecommunication, agriculture, machinery, and transport, leaving very little space for the private sector. The expansion of private enterprise has traditionally been constrained by monopolistic practices and various tax, customs, and licensing privileges granted to SOEs. Many SOEs still effectively combine regulatory, operational, and social protection functions, although the government has moved to separate these functions in some sectors (e.g., by establishing the energy and transport ministries).¹⁷ Limited fiscal space does not provide adequate flexibility for public investment in key infrastructure. Consequently, public investment fails to crowd in private investment. The absence of a robust public–private partnership (PPP) framework prevents the government from strategically using public investment to maximize private investment to modernize, expand, and improve aging or inadequate infrastructure. Lack of effective financial intermediation facilities (including limited rural branch networks), the high cost of funds, and administrative hurdles in withdrawing cash from bank accounts hinder private investment. In addition, business development services that are essential to nurturing small and medium-sized enterprises (SMEs) are limited.

20. Challenges exist on the public governance side. Despite drastic improvements in the business climate, Uzbekistan still records low governance ratings compared with its peers.¹⁸ The pursuit of structural reforms remains constrained by potentially oligarchic trends in some sectors of the economy. Involvement of multiple government agencies and ineffective public services are operational risks for businesses and limit private sector development. In addition, high staff turnover in public agencies continues to undermine the capacity of the civil service and hinders the delivery of quality public services. Assistance is needed to strengthen institutional capacity both at the strategic and policy level and at sector and technical levels.

21. PSD constraints also prevail in the areas of doing business (e.g., construction permits, protection of minority investors, trading across borders, and resolving insolvency); electricity reliability and adequacy of supply; competitors' practices in the informal sector; and access to finance.¹⁹ Finally, inadequate workforce skills further hamper business activity because they act as a brake on private sector growth and discourage foreign direct investment in the country.

22. **Climate change and environmental challenges.** Climate change is expected to cause rising surface temperatures, particularly in winter, less snowfall, and faster glacier melt in the

¹⁶ For example, only about 9% of all children aged 1–6 years in rural areas were covered by early childhood education services, three times less than in urban areas (2016). Rural health care is not adequate, and rural patients must often travel to regional or district health facilities, incurring significant human and economic costs.

¹⁷ The government is restructuring the Cabinet of Ministers and respective line ministries, detaching them from the SOEs' decision making as of February 2019. In addition, the government established the Agency for State Assets Management to improve SOEs' performance, including transparency and corporate governance, and to promote privatization.

¹⁸ For example, according to the Worldwide Governance Indicators (2018), Uzbekistan scores much lower in all six categories—government effectiveness, regulatory quality, rule of law, control of corruption, voice and accountability, and political stability and absence of violence—than do its peers on average in the groups of lower middle-income countries and of Europe and Central Asia countries. World Bank (www.govindicators.org).

¹⁹ ADB. 2019. Uzbekistan Private Sector Assessment. Manila.

upstream areas in Tajikistan and the Kyrgyz Republic, upon which Uzbekistan is dependent for water supply. This is expected to lead to higher water demand and declining water availability, accelerating the risk of water stress, particularly in irrigated agriculture. Increasingly variable precipitation and melting permafrost may result in more frequent natural hazards such as flooding and landslides. Consequently, in its Nationally Determined Contributions to the Paris Agreement, Uzbekistan identified key climate change adaptation measures in agriculture, natural resources, and infrastructure. This includes (i) introducing and scaling up modernized agricultural methods and technologies that are more productive and resilient to the impacts of climate change and variability; (ii) restoring degraded land and improving the management of water resources to ensure sustainable and efficient use of resources with more drought resilience;²⁰ (iii) modernizing, constructing, and maintaining climate-resilient irrigation, water supply, and other infrastructure that is more resilient to extreme weather events; and (iv) conserving and restoring livelihoods and ecosystems in the Aral Sea Basin.²¹

23. Uzbekistan is overall a relatively small contributor to global annual carbon dioxide (CO₂) emissions—its annual CO₂ emissions per capita (3.4 tons) are below the global average (5.0 tons per capita) as of 2014. However, its CO₂ intensity of GDP, at 0.6 kilogram per purchasing power parity dollar of GDP, is twice as high as the global average because of a large fossil fuel share in power generation and industry.²² Uzbekistan therefore intends, under its Nationally Determined Contributions, to reduce its annual greenhouse gas emissions per unit of GDP by 10% by 2030 (relative to 2010), and has ongoing, legally binding programs for energy efficiency and the deployment of renewable energy technologies. Greenhouse gas reductions are expected to be achieved through incentives, mandates, and financing for (i) improving the energy efficiency of industrial and power generation facilities and residential buildings, (ii) deploying renewable energy systems, (iii) switching fuels in transport, (iv) reducing methane losses in the natural gas subsector, and (v) strengthening the monitoring and reporting of emission levels (footnote 21).

24. **Mitigation of adverse effects of the reforms.** Although long awaited and necessary, the initiated reforms have caused price increases and structural changes in the economy that may result in the elimination of some jobs. This may lead to rising insecurity and inequality, as evidenced by the experience of other countries in the region that liberalized earlier. It is crucial to prevent people from falling back into poverty and to ensure that all members of society share the benefits of economic growth. A well-functioning skills development system can lessen the adverse impacts of structural change by providing workers with skills that are relevant to the needs of employers in emerging economic sectors.

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from Previous Strategy

25. Experiences and lessons from ADB's previous operations informed the formulation of this CPS. A self-evaluation of ADB operations recommended a broader use of financing modalities. ADB's Independent Evaluation Department rated the previous ADB program as *successful on the*

²⁰ About half of the total irrigated area is saline. The estimated annual economic cost of land degradation accounts for 4% of GDP, with most degraded areas concentrated in the lowlands of the Amudarya River–Khorezm region, the Republic of Karakalpakstan, and the regions of Bukhara, Navoi, Kashkadarya, and Fergana. International Food Policy Research Institute and Center for Development Research. 2016. *Economics of land degradation and improvement*. Cham, Switzerland.

²¹ Government of Uzbekistan. 2017. *Intended Nationally Determined Contributions of the Republic of Uzbekistan. United Nations Framework Convention on Climate Change*. Tashkent.

²² Data for 2014. World Bank. 2019. *Databank: World Development Indicators*. Washington, DC.

borderline and recommended that the new CPS (i) adopt more specific country goals for its future operations, (ii) intensify policy reform advice and consultation with the government, (iii) reduce inefficiencies through better project design and coordination, (iv) put greater emphasis on operation and maintenance (O&M) and cost recovery of infrastructure projects, and (v) enhance the usefulness of knowledge-intensive and analytical solutions.²³

B. National Development Strategy

26. Marking a radical break with the state-led model, the government adopted the national development strategy in early 2017, aiming towards a vibrant market economy and transformation of the state's role.²⁴ The strategy outlines five priority areas of reforms, including those in governance, public administration, and economic and social development.²⁵ The government further elaborated on the direction of the reforms in numerous other legislative acts, such as the Concepts of Administrative Reform and Innovative Development, and the Reform Roadmap for 2019–2021.²⁶

C. Role of Development Partners

27. After the reforms began, donor agencies visibly increased their activities in the country. The development landscape is characterized by the expanded operations of the historically present international finance institutions (IFIs), the return of the European Bank for Reconstruction and Development (EBRD) in 2017, and the emergence of new development partners such as Agence Française de Développement (AFD), the European Investment Bank, and the Asian Infrastructure Investment Bank. As of the end of 2018, ADB has the largest portfolio (totaling \$4.4 billion with 26 active projects), followed by the World Bank (\$3.5 billion with 24 projects); Japan International Cooperation Agency (JICA, \$1.5 billion), and Islamic Development Bank (\$1.3 billion).²⁷

28. In view of several new development partners and the government's increased receptivity toward IFIs, development partner coordination is even more important to ensure synergies and

²³ ADB. 2017. *Uzbekistan Country Partnership Strategy Final Review*. Manila; and Independent Evaluation Department. 2018. *Uzbekistan: CPS Final Review Validation, 2012–2016*. August. Manila: ADB.

²⁴ Government of Uzbekistan. 2017. Presidential Decree No. 4947. *On Strategy of Actions for Further Development of Uzbekistan*. Tashkent.

²⁵ In particular, (i) governance and public administration—improvements to e-government services and the quality and efficiency of public services; (ii) rule of law and judicial system—stronger independence of the judiciary, and guaranteed protection of the rights and freedoms of citizens; (iii) economic development—liberalization, competitiveness, and modernization; intensive development of agriculture; institutional and structural reforms to reduce the state's presence in the economy; further strengthening of private ownership, small businesses, and private entrepreneurship; socioeconomic development of the regions; and attraction of foreign direct investment by improving the investment climate; (iv) social development—improved social protection and health care, women's social and political activity, affordable housing, transport system, education, culture, and the state youth policy; and (v) security, tolerance, and foreign policy—stronger sovereignty of the state, creation of a security belt around Uzbekistan, and promotion of inter-ethnic harmony and religious tolerance.

²⁶ Government of Uzbekistan. 2017. Presidential Resolution No. 5185. *On Approval of Administrative Reform Concept*. Tashkent; Government of Uzbekistan. 2019. Presidential Decree No. 5621. *On Drastic Improvement of the Implementation System of State Policy in Economic Development*. Tashkent; and Government of Uzbekistan. 2019. Presidential Decree No. 5614. *On Additional Measures to Ensure Further Development of the Economy and to Enhance the Economic Policy Effectiveness*. Tashkent.

²⁷ Major development partners engage in a wide spectrum of economic activities. For example, the World Bank operations cover agriculture, water resources, energy, transport, urban infrastructure, public finance management, information and communication technology, education, health, and social protection. JICA and the Islamic Development Bank likewise engage in transport, energy, rural development, water supply and sanitation, water resource management, and irrigation.

avoid overlap. During the CPS period, ADB will support the government in coordinating operations in key sectors where ADB plays a leading role. ADB closely collaborates with AFD, EBRD, the European Union, Islamic Development Bank, JICA, and the World Bank. In transport, development partners coordinate their activities through the Central Asia Regional Economic Cooperation (CAREC) Program. ADB currently cofinances operations with AFD in agribusiness, public finance management (PFM), and SWM. In energy, ADB collaborates with JICA and the World Bank, and cofinances with EBRD.

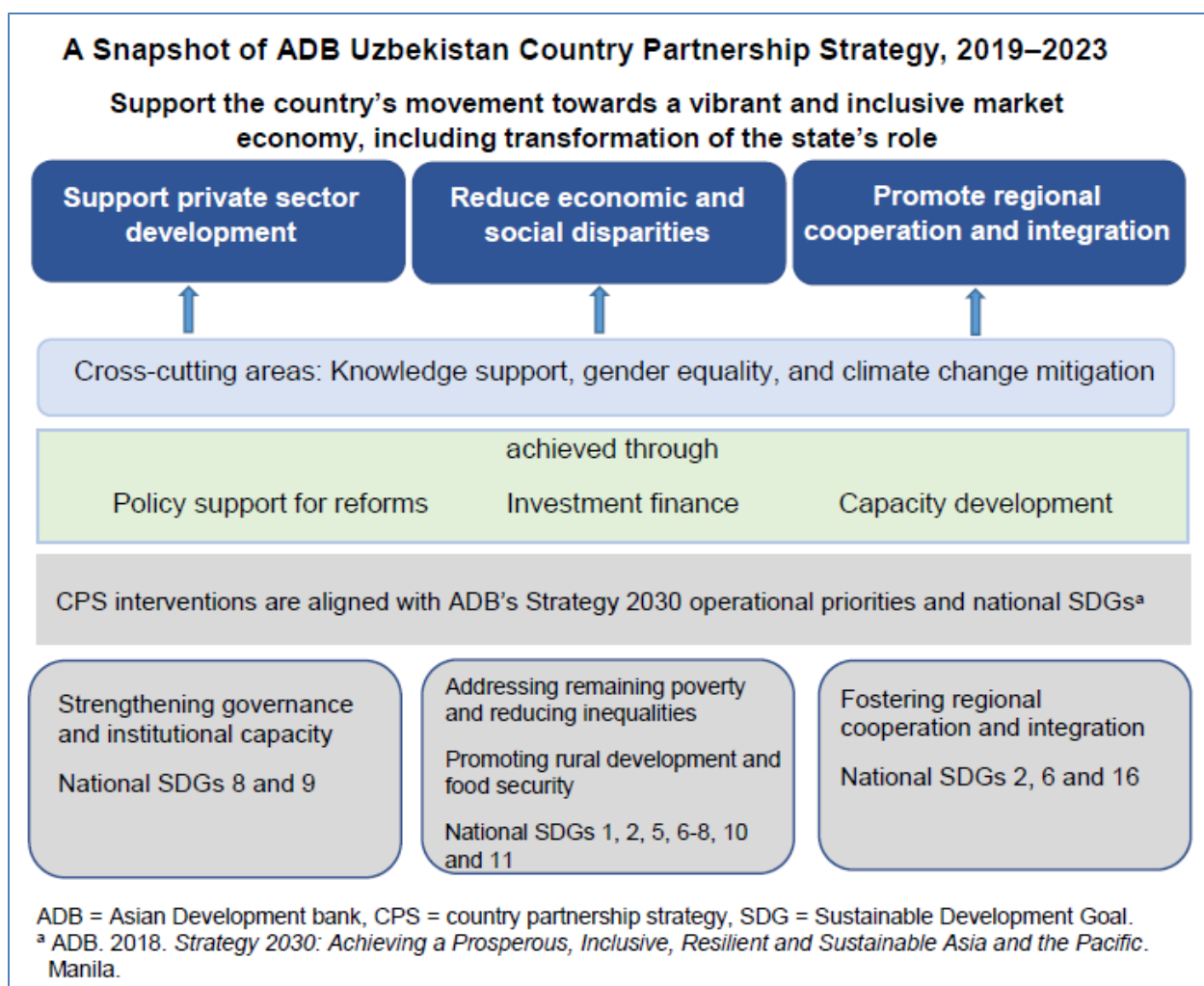
D. ADB's Strategic Objectives and Operational Priorities

29. **Strategic objectives.** The key objective of the CPS is to support the country's movement toward a vibrant and inclusive market economy, including the transformation of the state's role. The government's ultimate objectives of improving the quality of people's lives and enabling the creation of quality jobs can only be achieved by developing a robust private sector and reducing the state's pervasive footprint in the economy. ADB will assist in this transition by providing policy advice, investments, and capacity development in three strategic areas: (i) supporting private sector development, (ii) reducing economic and social disparities, and (iii) promoting regional cooperation and integration (figure).

30. **Area 1: Supporting private sector development.** ADB activities will assist the emerging transformation of the state's role and functions, and the development of "enablers" for the private sector. ADB will provide policy advice to the government on structural reforms, PFM, public administration, procurement, SOEs, and design and implementation of PPPs. In particular, ADB will help strengthen the country's PFM, which involves adopting international public sector accounting and audit standards, and managing direct and contingent liabilities for PPP projects; improving macroeconomic statistics; and lifting the performance of SOEs to create fiscal space for supporting critical infrastructure investment.²⁸ Along with PFM, ADB will assist the government in improving the effectiveness and efficiency of broader public sector institutions, strengthening public procurement, and delineating policy and regulatory functions from asset ownership or management. While the first phase of the policy-based loan (PBL) [footnote 28] supported the introduction of corporate governance rules in line with the Guidelines on Corporate Governance for SOEs of the Organisation for Economic Co-operation and Development (OECD) and their adoption for selected SOEs, the second phase of the PBL is expected to expand the application of these rules to all SOEs. It will also support the delineation of policy and regulatory functions by transferring at least 38 SOEs to the recently established Agency for Management of State Assets. ADB investment operations in infrastructure sectors will assist the restructuring and reform of the relevant SOEs.²⁹ ADB will help develop the enabling environment for PPPs (policy, legal and regulatory, and institutional and financial), and a pipeline of bankable demonstration projects based on PPP. ADB will also help the Ministry of Finance to develop a framework to ensure that the fiscal exposure arising from PPPs is suitable, affordable, and manageable.

²⁸ These activities are being undertaken under the first subprogram of the policy-based loan (PBL) [ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, PBL for Subprogram 1, and Technical Assistance Grant to the Republic of Uzbekistan for the Economic Management Improvement Program*. Manila] and will be included under Subprogram 2 of the PBL.

²⁹ ADB operations in energy will continue to support the adoption of international accounting and auditing practices and the financial management of Uzbekenergo, a vertically integrated state monopoly, responsible for electricity generation, transmission, and distribution, and operating under government supervision and regulation.



31. As an enabling condition for PSD, ADB will support the rehabilitation, construction, and modernization of infrastructure in energy, agriculture, transport, and utilities that contribute to Uzbekistan's climate resilience and low-carbon development objectives. As a leading development partner in the country's energy sector, ADB will provide financing for the wide spectrum of energy infrastructure, covering electricity generation (including from renewable sources such as hydropower), transmission, and distribution, as well as gas transmission. ADB will provide critical investments for the rehabilitation of roads and the electrification and modernization of railways, leading to an efficient, user-friendly, and reliable transport system. ADB will continue to help improve WSS and SWM, and promote sustainable and affordable utility services. ADB will support modern irrigation facilities and agro-logistic centers to increase agricultural productivity and efficient use of resources, and deepen agricultural value chain links. These operations will help foster PSD in the agriculture sector and, importantly, promote the diversification of the country's agriculture from cotton and wheat to horticulture and livestock, with fewer social and regional environmental concerns and higher financial and economic returns. The reform and restructuring of infrastructure agencies is important to attract private investors and PPPs. ADB infrastructure investments will be climate-resilient and use advanced technology and

management methods.³⁰ ADB operations will improve the country's energy security and reduce greenhouse gas emissions by increasing energy efficiency and promoting renewable energy.

32. Uzbekistan's finance sector is dominated by state banks, and domestic mobilization through capital markets is largely absent. To build confidence in the banking subsector and to minimize financial intermediation costs for businesses, ADB will support PSD by helping develop sound regulatory systems in banking and a robust capital market. ADB will support finance sector development through financial inclusion in rural areas, SME finance, bond markets, and development of market-based housing and mortgage finance. Equally important for PSD is a well-functioning labor market. ADB interventions will support the supply side of the labor market with measures to boost modern labor skills, monitor the labor market, and upgrade the curriculum to ensure industry–education links, as well as strengthening education and competence in science, technology, engineering, and mathematics.

33. **Area 2: Reducing economic and social disparities.** To tackle the deep disparities in urban–rural economic development and support the government's aim of improving the quality of life for the rural population, ADB will engage in rural development (livestock, horticulture, water resource management, and irrigation) and public infrastructure (electricity, WSS, SWM, and public transport); and provide financing for SMEs with a gender-empowerment focus. ADB will also help reduce the economic distance between rural and urban areas through its transport projects and by supporting urban policies that include spatial considerations and stronger urban–rural links.

34. ADB will apply a "3E" approach to making Uzbekistan's cities and small towns livable, by promoting Economic competitiveness, Environmental sustainability and resilience, and social Equity. To make the urbanization process sustainable and regional development balanced, ADB will help elaborate modern urban policy and integrated planning, and master planning for cities and towns, as well as develop innovative financing mechanism for the modernization of urban infrastructure.³¹ ADB will support improvements to the quality and sustainability of Uzbekistan's WSS services and the operational efficiency of its utility companies.

35. Based on the needs of the health sector in Uzbekistan and in line with the government's new health strategy, ADB will work toward reducing maternal and child mortality, the rural–urban disparities in the quality of health care provision, and will assist in the development of an e-health system, aiming at integrating different levels of health care and increasing its efficiency. ADB activities will complement the work of other development partners in the sector.

36. ADB will help minimize the adverse impacts of the reforms, especially on vulnerable groups of the population. For example, restructuring of SOEs in energy and other infrastructure sectors may require retrenchment of labor; ADB will assist in overcoming these challenges. In addition, ADB will produce knowledge products under ADB-wide regional technical assistance

³⁰ For example, ADB's planned energy sector operations are seeking to tap funding and support from ADB's High-Level Technology Fund for tools based on information and communication technology that help make grid operations more efficient, optimize generation and transmission, modernize dispatching operations, and enable energy-efficient wastewater treatment.

³¹ A concept of urbanization until 2030 envisages an integrated approach through master planning to the development of economic growth clusters for local economic development, cultural heritage upgrades, tourism, information and communication technology, PPPs, and SME development, with investments in key municipal infrastructure and services.

(TA) on social protection. Promotion of gender equity will be a crosscutting theme throughout all ADB operations (para. 40).

37. **Area 3: Promoting regional cooperation and integration.** ADB has a long tradition of supporting regional integration and cooperation through the CAREC Program,³² and its activities will support Uzbekistan's emerging role as a driver of regional cooperation. ADB will promote regional power trade within the CAPS³³ and regional connectivity along major CAREC corridors; it will rehabilitate last-mile transport infrastructure near borders, modernize cross-border gas pipelines, and support various sanitary and phytosanitary measures and certifications to boost the prospects for regional trade and WTO accession. Reinforcing the growing recognition that national management of water resources cannot be undertaken in isolation of the broader transboundary context, ADB operations will aim at improving water productivity in irrigated agriculture, promoting transboundary management of water resources, and mitigation of climate change impacts. Having adopted the Concept for Tourism Development for 2019–2025, Uzbekistan aims to transform tourism into a strategic sector of the economy.³⁴ ADB will consider prospects for greater trade integration along economic corridors between Uzbekistan, Kazakhstan, and Tajikistan.³⁵ The development of these economic corridors and increased regional tourism are promising undertakings with potentially far-reaching implications for the Central Asia region as a whole. Uzbekistan will also benefit from knowledge sharing between CAREC countries on various topics of interest, including on WTO accession.

38. **Potential for private sector solutions.** As the state's domination in the economy is reduced, the inter-sector reallocation of human and capital resources, as well as productivity and efficiency gains from price liberalization and other structural reforms, will create opportunities for new investments by the private sector. In the spirit of "One ADB", the proposed sovereign operations will be complemented by nonsovereign operations (NSOs) to provide financial assistance directly to bankable private sector and SOE clients, principally in the financial, agribusiness, and infrastructure areas.³⁶ Smaller-ticket transactions will be considered. ADB will support financial institutions by providing various financial products (including equity and longer-tenor debt) to strengthen banking, enhance financial inclusion, and boost lending to SMEs and the agriculture sector. ADB will work on expanding its credit enhancement products, including supply chain finance, and consider local currency financing for SMEs. In the agribusiness, ADB will work with leading local and international sponsors on environmentally sustainable investment projects across the value chain.³⁷

³² CAREC countries have adopted a new long-term strategy: ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila. Uzbekistan is the chair country of the CAREC Program in 2019.

³³ ADB is also providing assistance to other countries in the CAPS, such as Tajikistan, to help it reconnect with the Uzbekistan system and improve regional energy efficiency among the CAPS countries. A power trade agreement, signed in March 2018, to restart the electricity trade between the two countries marks a step forward to a renewed regional energy network.

³⁴ Among potential regional opportunities for consideration are the establishment of the "Silk Road visa" regime, and tourism product development and service standards. ADB's projects in the transport sector will enhance access to major tourism destinations, and the urban sector projects will improve the tourism sites and facilities.

³⁵ Involving Shymkent (Kazakhstan)–Tashkent–Khujand (Tajikistan) cities and the surrounding Turkestan (Kazakhstan)–Tashkent–Sughd (Tajikistan) *oblasts*.

³⁶ ADB will respond to the government's demands for investment in particular sectors by sovereign operations and/or NSOs, concomitant with policy work and capacity development activities. Such "reforming-by-doing" would require the use of various instruments (such as partial or full risk guarantees), blend financing, with the objective of having a larger impact on sector development.

³⁷ Given Uzbekistan's needs and comparative advantage, ADB in particular will explore projects in farm input production and distribution, high-value horticulture, cotton production mechanization and value-added processing, modern and responsible livestock farming, and high-quality food processing and distribution.

39. ADB will continue to support the government in establishing an enabling environment for PPPs and in scaling them up.³⁸ ADB is building the capacity of the recently established PPP Development Agency under the Ministry of Finance, including support to develop the framework for evaluation and processing of PPPs. ADB will also provide transaction advisory services for PPP projects in various sectors and subsectors, including but not limited to SWM, water supply, education, transport, and power generation and distribution. Its assistance is coordinated with other development partners that are engaged in solar and wind power, specialized medical services, roads, and airports.

40. **Gender equality.** Gender equality and climate change mitigation will run across all strategic areas of the CPS. ADB operations will strive to empower Uzbekistan's women economically by supporting SMEs owned by women and women entrepreneurs' access to finance, and promoting gender-sensitive occupational skills and educational programs in ADB's labor market interventions. Through its urban and rural municipal services, especially in WSS, energy, and transport, ADB operations will contribute to alleviating women's time poverty. On the public administration side, ADB will support better collection, analysis, and monitoring of sex-disaggregated information and statistical data, and the establishment of a viable business registry, and will support medium-term budgeting based on gender sensitivity of government expenditures. Respective ADB operations will include gender action plans with target indicators and delivery of capacity building in an appropriate manner to women engaged in project activities.³⁹

41. **Climate change mitigation.** Climate change mitigation will involve the building of climate-resilient infrastructure (for example, irrigation), technological modernization of agriculture, and the restoration of degraded land and stronger management of water resources. As mentioned earlier (paras. 22–23), the national climate change mitigation measures include reducing the greenhouse gas emissions per unit of GDP by 10% by 2030. ADB will support this goal through its operations aimed at improving energy efficiency, developing renewable energy, supporting fuel switch in transport, and reducing methane loss in the natural gas segment.

42. **Alignment with Strategy 2030.** The CPS is in line with ADB's Strategy 2030 and focuses on four of its operational priorities. CPS area 1 (supporting private sector development) covers public management reforms and financial sustainability, the changing role of the state, and capacity requirements, and is aligned with the operational priority of strengthening governance and institutional capacity. CPS area 2 (reducing economic and social disparities) bridges the gap between rural and urban development, and fosters social inclusion, job creation, agricultural productivity and markets, and health care service delivery, and is aligned with the operational priorities of tackling remaining poverty, reducing inequalities, and promoting rural development. CPS area 3 (promoting regional cooperation and integration) aims to improve connectivity and competitiveness, regional public goods, and regional activities, and is aligned with the operational priority of fostering regional cooperation and integration. The CPS also deals with the operational priorities of gender equality and tackling climate change by mainstreaming these in projects and programs. To a lesser extent, the CPS supports Strategy 2030's operational priority of making cities more livable by supporting the government's new strategic agenda for modern urban policy and planning.

43. The CPS incorporates integrated cross-sector and cross-thematic solutions. For example, the focus on PSD and on removing economic and social disparities encompasses several infrastructure and social sectors; an interplay between the public and private sectors; a mix of

³⁸ ADB's support will be through its transaction advisory services and the Asia Pacific Project Preparation Facility.

³⁹ ADB. 2018. *Uzbekistan Country Gender Assessment Update*. Manila.

lending modalities; and a mix of sovereign operations, PPPs, and NSOs. ADB's flagship support to the infrastructure sectors encompasses financing, policy advice, and capacity development. Support to public governance and SOE reform likewise embraces a systemic approach to tackling the fundamental constraints to PSD. The promotion of regional tourism combines various modalities, sectors, and themes (e.g., urban infrastructure, planning, public and private services, PSD, gender, and regional cooperation and integration).

44. ADB intends to maintain a significant operational presence in the country, given its size, the large and growing operational program,⁴⁰ diverse development challenges, and the reform momentum. The CPS also builds in a certain amount of flexibility to remain effective in the face of changing realities. Strategic selectivity is motivated by prioritizing government demands, establishing clear divisions of labor across sectors and subsectors, and considering ADB's track record, past operational performance, and current comparative advantage. For example, the World Bank, the United Nations Development Programme, the United Nations Children's Fund, and the International Labour Organization are supporting the social sectors. ADB's social sector support will be modest during the CPS period, complementing the lead work of other development partners and focusing on key constraints to human capital development.

E. Priorities for Knowledge Support

45. Knowledge solutions and capacity development will be woven into virtually all ADB operations, through policy advice, advanced technology and management practices, and capacity development. In particular, ADB will provide policy support for structural reforms announced in the reform road map; apply modern technology in infrastructure sectors (for example, water-efficient systems for irrigated agriculture, remote sensing and hydraulic modeling for WSS, or modernized dispatching operations in the energy sector) and public administration (health information system, digitalization); and provide extensive capacity development for O&M of infrastructure and agricultural assets, and for other topics.⁴¹ ADB will develop capacity for the implementation of a PPP framework and PPP ventures, including through the PPP certification programs supported by the Asia Pacific Project Preparation Facility. The formulation of economic and social sector reforms and their implementation is a complex process because it involves historical legacies and mindsets, scarce capacities of the virtually new civil service, and a wide range of development partners with their advice and programs. To address the knowledge needs, the planned knowledge operations for 2019–2023 comprise a series of advisory services, research, and capacity-building activities.⁴² This is in line with the recommendations resulting from the review of ADB's past operations.

46. Equally important are the opportunities for sharing knowledge and experiences between Uzbekistan and other countries in the region, and with successful reformers elsewhere. Uzbekistan will benefit from numerous CAREC and ADB-wide regional TA projects through which such cooperation could be provided.⁴³ ADB will specifically work with the country's public and

⁴⁰ ADB's ongoing Uzbekistan portfolio is the largest among the Central Asia and South Caucasus countries.

⁴¹ Most ADB operations will include capacity development for O&M of assets, including for road maintenance; combined cycle turbines; WSS; SWM; agro-logistic centers (specifically, with gender promotion); horticulture facilities; and water and land management systems. The Country Knowledge Plan (Appendix 2) provides an extensive list of proposed capacity development activities.

⁴² Country Knowledge Plan (Appendix 2). ADB will take a proactive role to raise understanding and awareness about critical areas in support of Uzbekistan reforms.

⁴³ More than 10 current regional TA projects include activities in Uzbekistan (as of May 2019).

private think tanks to improve their capacity for economic analysis.⁴⁴ The country director of ADB's Uzbekistan Resident Mission, as the country knowledge plan's custodian, will ensure proactive coordination of knowledge partnerships and solutions in line with the "One ADB" approach and ADB's prominent role in the country's coordination of donor-funded knowledge solutions.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

47. Uzbekistan is a group B country and is currently eligible for concessional ordinary capital resources (OCR) lending and regular OCR lending. To accommodate the country's expanding demand for the funding of vital infrastructure and social sector programs, ADB envisions to provide about \$1 billion per year during 2019–2023.⁴⁵ The existing cost-sharing arrangements will continue to apply, with ADB financing covering up to 80% of loan project costs on an overall portfolio-wide basis.⁴⁶ ADB will provide TA resources (estimated at \$27 million) for capacity development, project preparation, and knowledge solutions. The country's progress toward graduation from category B will be monitored.⁴⁷

B. Implementation Priorities

48. **Portfolio implementation issues.** The performance of ADB's Uzbekistan portfolio has deteriorated in 2017-2018 compared with that of other Central and West Asia Department countries. In the new CPS period (2019–2023), significant efforts will be made to improve the implementation of the ADB portfolio and ensure that projects are implementation-ready when ADB approves them. In mid-2018, the government streamlined its procedures for projects funded by IFIs; they now allow for advanced contracting, in particular. ADB will also process project readiness facilities to support detailed design, and ensure that tenders are advertised prior to project approval by ADB. ADB is also providing significant support to project management capacity building, including procurement, financial management, and monitoring and evaluation. ADB's Central and West Asia Department plans to delegate more projects for administration to the Uzbekistan Resident Mission and outpost sector specialists to complement the Resident Mission's portfolio management team.

49. **Proposed modalities of ADB support.** Proposed ADB modalities include policy-based, results-based sector development programs, financial intermediation lending, stand-alone projects, TA, and NSO and PPP transactions. The use of new ADB products and instruments, such as project readiness financing, will be encouraged within the CPS period, and efforts will be

⁴⁴ Given the long-established dominance of state research institutes, independent analyses of official statistics and government policies and programs are virtually nonexistent in Uzbekistan. A vibrant community of professional private and independent experts is needed to achieve better analysis of economic and social policies. ADB will strive to support the development of technical expertise not only at public institutions but also among the country's independent economic experts.

⁴⁵ ADB will expand its assistance to well-prepared projects and explore cofinancing opportunities to augment the annual indicative resource allocation. The final amount of assistance is subject to availability of resources and project readiness.

⁴⁶ Actual cost sharing will be determined by project-specific considerations and be justified during the economic and financial due diligence.

⁴⁷ Although Uzbekistan's gross national income per capita exceeds the International Development Association's current operational cutoff for country classification (e.g., \$1,145 in 2017 United States dollars), the country's creditworthiness for regular OCR loans or market-based resources is deemed limited at the current stage. ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila; and ADB. 1998. *A Graduation Policy for ADB's DMCs. Corrigendum 1*. Manila.

made to seek cofinancing opportunities. Uzbekistan's rapidly changing realities necessitate flexibility in designing the most effective ADB support. Significant capacity development and institution building is needed to improve the likelihood that current and future reforms will succeed. Knowledge partnerships with local universities, and economic and social civil society organizations, with involvement of the CAREC Institute and ADB Institute, will be pursued.

C. Monitoring of Results

50. The CPS results framework (Appendix 1) aligns with the government's national development strategy and other country strategies. Sector and project results will be tracked during country portfolio reviews and programming missions by the ADB country team. This will be done in collaboration with the government's monitoring of the SDGs (para. 14), and with executing and implementing agencies. ADB will systematically monitor the gender results of operations classified as gender equality and effective gender mainstreaming. In turn, monitoring of the results framework will inform the country programming processes.

D. Risks

51. The scale of challenge in Uzbekistan is unprecedented, and the deep-rooted structural problems in its economy and governance require far-reaching reforms to resolve. As economic reforms deepen, these will increasingly challenge vested interests in key economic sectors and government agencies. Failure to manage this process will risk the reversal of the reform agenda. Strong governance mechanisms are needed to pursue the reforms effectively. The insufficient capacity of public institutions is another significant risk. Regular policy dialogue as well as substantial capacity development and institution building under the CPS will help improve the likelihood of success for current and future reforms.

52. As regards the external economic factors, the past's upward trend in prices for key export commodities (gold and natural gas) may level off in the near future. At the same time, the growth in import demand from Uzbekistan's main trading partners (the People's Republic of China, Kazakhstan, the Russian Federation, and Turkey) may slow, with significant downside risks. The impact of sanctions on the Russian Federation remains to be seen, and may prove another downside factor through remittances and investment channels. In terms of external stability, these risks should remain modest, given the country's large foreign exchange reserves and moderate external debt.

53. As regards the country systems, PFM is deemed reliable in budget credibility, debt management, and treasury functions, but weaknesses exist when it comes to transparency, public participation, off-budget funding, internal audit, and external audit. The new PFM reforms aim to improve the tax administration, introduce a medium-term budget framework, establish international public sector accounting and audit standards, and strengthen external audit. The public procurement system has historically been viewed as inefficient and nontransparent. In 2018, the government adopted a Public Procurement Law that established a unified institutional and operational procurement approach. In 2017, the government launched an extensive anticorruption campaign that includes legislative, regulatory, and institutional initiatives. These developments demonstrate political commitment to reforms, but given that the government's reforms are still relatively new, ADB will carefully monitor mitigation measures for ongoing and future ADB-financed operations, as well as continue policy dialogue to support further reforms.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Impact Indicators with which the CPS is Aligned^a				
1. Proportion of population living below the national poverty line reduced from 14% in 2017 to 10% in 2023 2. Gross domestic product per capita increased to at least \$1,750 by 2023 (2018 baseline: \$1,535) ^b 3. Unemployment rate declined from 9% in 2018 to 6% in 2023.				
CPS Strategic Objectives	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Supporting PSD	Transformation of state's role in the economy	Reduction of state involvement in financial intermediation	Share of state-owned banks in total assets of banks reduced to 70% by 2023 (2018 baseline: 84%)	Ongoing portfolio Ongoing sovereign loan projects (as of 31 December 2018): Number: 26 Amount: \$4.4 billion Planned operations and contribution: Sovereign Lending (estimated \$5.5 billion, including \$3.7 billion in ordinary capital resources and \$1.8 billion in concessional ordinary capital resources for 2019–2023)
	Enabling environment for PSD	Reform of state-owned enterprises in energy and transport sectors Mitigation of infrastructure constraints on PSD Improvement of access to infrastructure and social services through public–private partnerships	Non-core assets of Uzbekenergo, Uzbekneftegaz (Uzbekistan oil and gas company), and Uzbekistan Temir Yullari (Uzbekistan railways) divested by 2023 (2018 baseline: none) Country ranking under getting electricity in Doing Business report improved to at least 20 by 2023 (2018 baseline: 35) ^c At least five public–private partnership projects reached financial closure by 2023 (2018 baseline: none)	
Reducing economic and social disparities	Provision of equal access to economic opportunities	Broadening of access to finance for women	Share of women borrowers in rural mortgage lending increased to at least 30% by 2023 (2017 baseline: 23%)	Technical assistance Nonlending (estimated \$5.5 million per year)
	Reduction of distance to regional economies	Improvement of regional transport connectivity	Proportion of electrified railway lines increased to at least 50% by 2023 (2018 baseline: 40%)	
	Equitable improvement of living standards in urban and rural areas	Upgrades of rural and urban service infrastructure	At least 10 million additional residents have access to improved rural and urban infrastructure and services by 2023 (2018 baseline: not available).	
		Integrated urban planning and management for selected cities and towns	Integrated urban investment plans prepared for at least two cities/towns by 2023 (2018 baseline: 0)	

CPS Strategic Objectives	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Promoting regional cooperation and integration	Promotion of trade in Central Asia Promotion of exports based on comparative advantages	Facilitation of bilateral trade with neighboring countries Enhancement of export potential of horticulture subsector	Bilateral trade turnover of Uzbekistan with neighboring countries increased to \$6,000 million 2023 (2018 baseline: \$4,776 million) ^b Export of horticulture products reached at least 15% of total production by 2023 (2018 baseline: 7%)	

ADB = Asian Development Bank, CPS = country partnership strategy, PSD = private sector development.

^a The country development indicators are predicated on social and economic development pillars of Uzbekistan's national development strategy for 2017–2021. Government of Uzbekistan. 2017. *Presidential Decree No. 4947, On Strategy of Actions for Further Development of Uzbekistan*. Tashkent. The target poverty rate is based on the national objectives under Sustainable Development Goal 1. Government of Uzbekistan. 2018. *Resolution of the Cabinet of Ministers No. 841, About Measures to Achieve National Targets under SDGs by 2030*. Tashkent. The target unemployment rate for 2023 is based on the government objectives of addressing unemployment by 2021. Ministry of Employment and Labor Relations. 2018. *Strategy of the Ministry of Employment and Labor Relations for 2021*. Tashkent.

^b At the current exchange rate of the Uzbekistan sum to the United States dollar.

^c World Bank. 2018. *Doing Business 2019: Training for Reform*. Washington, DC. <http://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>.

Source: Asian Development Bank.

COUNTRY KNOWLEDGE PLAN

A. Knowledge Needs

1. Uzbekistan has embarked upon comprehensive reforms across all social and economic areas, in line with its development priorities.¹ The key objective of the country partnership strategy of the Asian Development Bank (ADB), 2019–2023 is to support this reform agenda—aiming at a vibrant, private sector-led, and inclusive economy—through both investment finance and the much-needed policy and capacity support and knowledge solutions.² Uzbekistan needs substantial assistance in formulating its economic and social policies and reforms, and in implementing them. This is a complex process as it involves historical legacies, scarce capacities and capabilities in the virtually new public administration system, and a wide range of donor partners with their advice and programs.

2. Specifically, the government needs policy advice on designing, sequencing, coordinating, monitoring, and evaluating the reform agenda; conducting analyses for evidence-based policy decisions; and communicating the reforms to the public.³ The economic liberalization, including foreign exchange unification in 2017 and the subsequent price adjustments of utilities, has triggered inflationary pressures; structural changes in the economy, including reform of state-owned enterprises, may lead to the elimination of some jobs. The country needs expertise on how to mitigate these costs of the reforms. Faced with a rapidly growing population, the government needs knowledge in promoting private sector development, diversifying the rural economy, providing training and retraining in labor skills, and overall improving its governance system. Other areas of much-needed capacity assistance include the design and implementation of public–private partnerships, sector policies and tariffs reforms, and accession to the World Trade Organization. Learning from other economies that went through market liberalization earlier will also help in navigating the socially least costly reform path and in minimizing the risk of the economy falling prey to oligarchic interests. As Uzbekistan is emerging as a driver of regional cooperation in Central Asia, the country needs capacity development in aligning its national customs services with international standards, modernizing sanitary and phytosanitary inspection and international certification of export products, and improving the cross-border investment flows, among others.

B. Scope of ADB’s Planned Knowledge Operations

3. To meet the knowledge needs, the planned knowledge operations for 2019–2023 comprise a series of policy advisory services, support for advanced technology and management practices, and capacity-building activities. This knowledge series reflects the need for broader and deeper policy advice, and is in line with the recommendations of the review of ADB’s past operations.⁴ Knowledge solutions and capacity development will be weaved into virtually all ADB operations. ADB will provide focused demand-driven but proactive and timely knowledge solutions that are critical in overcoming the development constraints in Uzbekistan and enhancing the quality of people’s lives. The proposed knowledge solutions, comprising policy advice, capacity development,

¹ The 5-year national development strategy identified inclusive, diversified, and sustainable growth as a key reform objective, and set five priority areas for reform: (i) public administration and governance, (ii) rule of law, (iii) economic liberalization, (iv) social safety net, and (v) security. The government further elaborated on the direction of reforms through other legislative acts such as the Concepts of Administrative Reform and Innovative Development, and the Reform Roadmap for 2019–2021.

² The country partnership strategy’s operational priorities include (i) supporting private sector development, (ii) reducing economic and social disparities, and (iii) promoting regional cooperation and integration.

³ An Economic Council with independent international advisors, supported by ADB and the World Bank, has been established to provide high-level strategic support to the government.

⁴ ADB. 2018. *Uzbekistan: Validation of the Country Partnership Strategy Final Review, 2012–2016*. Manila.

and knowledge exchange, are listed in Table A2. As additional demand for knowledge solutions will certainly emerge during the implementation period of ADB's country partnership strategy, this list of anticipated needs is not exhaustive, and subject to review and adjustment.

4. Equally important are the opportunities for sharing knowledge and experiences between Uzbekistan and other countries in the region, and with successful reformers elsewhere. Uzbekistan will benefit from numerous regional, Central Asia Regional Economic Cooperation (CAREC), and ADB-wide technical assistance (TA) projects (regional TA projects) through which such cooperation could be provided. The most salient TA projects that Uzbekistan will benefit from are the TA projects for supporting knowledge solutions in Central and West Asian Countries, improvement of data, modernizing sanitary and phytosanitary measures to facilitate trade, strengthening urban planning, renewable energy integration to the grid, increasing energy trading within the Central Asia Power System, and railway sector development.

Table A2: Planned Knowledge Support during the Country Partnership Strategy, 2019–2023

Area 1: Supporting private sector development	
Economic policy advice (crosscutting themes)	Reduction of the state's footprint in the economy and private sector development. Design and implementation of key structural reforms; best practices of other reformers; sequencing of reforms; mitigation of adverse impacts of the reforms; strategic planning; tariff adjustments; support of a strategic advisor. Job creation through private sector development; diversification of the economy, including export-oriented horticulture value-chains; rural development; skills development; active labor market interventions. Regulation and design of public–private partnerships, with pilots in selected sectors as required by government (including but not limited to education; energy, water and wastewater, transport, and solid waste management); transaction advisory services.
Public administration and institutions	Adoption of budget accounting standards in line with the International Public Sector Accounting Standards, internal audit activities, capital adequacy for state-owned banks, and adoption of the International Monetary Fund's enhanced general data dissemination system for macroeconomic data. Rationalization and optimization of public administration and institutions; improvements to accountability and state functions (such as civil and property registration and others, involving e-government); systemic reform of civil service apparatus; improvements to the judicial system, e.g., greater transparency of commercial courts, rule of law, and equal treatment for businesses.
State-owned enterprises	Establishment of corporate governance rules in line with the Organisation for Economic Co-operation and Development's Corporate Guidelines Rules for SOEs (2015), SOEs' assets and debt management, divestment of non-core assets, and their audit practices. Restructure and reform of key SOEs in ADB's sectors of operations, including corporate governance; adoption of international accounting and auditing practices, and financial management (Uzbekenergo and Uzbekneftegaz). SOE sector review; knowledge sharing on SOE reforms in resource-rich countries: information disclosure, accountability, governance, and effectiveness. Restructure or closure or privatization of select pre-identified SOEs.
Infrastructure support	Diversification of energy generation, energy efficiency, and financial sustainability of operations (including key public service providers Uzbekenergo and Uzbekneftegaz); divestment of the utilities' non-core assets, restructure and unbundling of the gas subsector, and market-oriented energy pricing; reduction of greenhouses gas emissions through energy efficiency improvements. Promotion of advanced technology and management methods, using ADB's High-Level Technology Fund for operations in energy and wastewater treatment; geographic information system and hydraulic modeling.
Financial market	Policy, regulatory, and legal reforms for the development of a market-based mortgage sector with modern policies and mechanisms, establishment of a financially sustainable wholesale mortgage refinancing company with corporate standards and procedures, and risk management and pricing in line with international standards. Advice on how to improve the state rural housing programs through review and revision of the housing policy and subsidy framework, to make it more efficient, effective, and targeted. Deepening of the government securities market and development of financial markets, including the bond market, to support market stability, and facilitation of private sector development.

	<p>Advice on how to upgrade accounting and auditing standards, strengthen market infrastructure, improve the governance of listed companies, enhance financial literacy (through certification and training), and increase the supply of equities, bonds, and alternative financial instruments (derivatives, private equity funds, asset securitization).</p> <p>Strengthened financial inclusion (with a focus on women's empowerment), finance for small and medium-sized enterprises, and active labor market policies.</p> <p>Policy, regulatory, and legal reforms for the development of small and medium-sized enterprises to give Uzbekistan's manufacturing industry more clout in international markets, boost exports, and create jobs.</p>
Human capital	Evidence-based policy advice on developing a skills monitoring system; governance of the skills development industry, promotion of private sector links, and strengthening of labor market institutions.
Capacity development for better governance	<p>Project management support to the State Committee for Investments under Ministry of Investment and Foreign Trade.</p> <p>Training of staff at the State Committee on Statistics and the Ministry of Economy and Industry on national accounts; development of a risk-based audit manual for internal auditing of public expenditures; formulation of guidelines for the State Committee for Roads on road design, maintenance, and contract supervision and management.</p> <p>Improvement of the Ministry of Finance's capacity for medium-term budgeting.</p> <p>Development of the Customs Committee's capacity to deliver services using information and communication technology-based management, and align national customs clearance with the World Customs Organization's standards and procedures.</p> <p>Capacity building for the State Quarantine Inspection under the Cabinet of Ministers to ensure conformity of national legislation on quarantine with international standards.</p> <p>Training and technical advice to trade institutions on expansion of regional market access, export diversification, and accession to the World Trade Organization.</p> <p>Capacity development for the Public-Private Partnership Development Agency under the Ministry of Finance.</p> <p>Various other capacity development activities in ADB's sectors of operations (see below).</p>
Area 2: Reducing economic and social disparities	
Infrastructure support	<p>Integrated urban planning, balanced regional development; tariff policy in water supply and sanitation; regulatory framework for solid waste management; establishment of environmental monitoring, performance standards, and benchmarking.</p> <p>Training in operation and maintenance of roads; combined cycle turbines; water supply and sanitation; solid waste management; agro-logistical centers (specifically, with gender promotion); horticulture facilities; water and land management systems.</p> <p>Diversification from cotton and wheat to horticulture and livestock production; creation of high-value, labor-intensive agricultural production and processing.</p> <p>Training in control of major diseases and veterinary services.</p> <p>Training in use of equipment and performance assessment of health technology operators, and institutionalization of primary health care monitoring tools.</p> <p>Support labor market institutions, skills monitoring systems, and implementation of the Labor Force Survey.</p>
Human capital	<p>Policy support on handling labor retrenchment caused by reform of the SOEs; financial options on social protection; active labor market policies, including retraining of skills.</p> <p>Support for universal access to quality health care services, especially for mother and child care; support for the development of a national digital health management information system, key inputs into a national health insurance system (provisional on government's readiness to advance reforms in the health sector).</p>
Area 3: Promoting regional cooperation and integration	
Policy support and knowledge sharing in regional initiatives	<p>Regional power trade within the Central Asia Power System, modernization of cross-border gas pipelines, enhancement of regional connectivity along major CAREC corridors; sanitary and phytosanitary as well as technical measures and certifications to boost the prospects for regional trade, especially in horticultural products; accession to the World Trade Organization.</p> <p>Development of regional tourism, tourism products, and service standards; support to the "Silk visa" regime; air connectivity; and creation of regional and subregional tourism brands.</p> <p>Augmentation of trade integration among Shymkent (Kazakhstan)-Tashkent-Khujand (Tajikistan) cities and surrounding Turkestan (Kazakhstan)-Tashkent-Sughd (Tajikistan) oblasts.</p> <p>Knowledge sharing between the CAREC countries.</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, SOE = state-owned enterprise.
Source: Asian Development Bank.

C. Areas of Collaboration with Partners

5. In designing knowledge products and delivering policy advice, ADB will collaborate with the country's think tanks, civil society organizations, and development partners to augment the relevance and impacts of delivered knowledge. Given that research in Uzbekistan has traditionally been dominated by state institutes, independent analyses of official statistics and government policies and programs are virtually nonexistent. A vibrant community of professional private and independent experts is needed to achieve better analysis of economic and social policies. ADB will strive to support the development of technical expertise among not only public institutions but also among the country's independent economic experts. The engagement of civil society organizations will strengthen the impact of ADB's policy advice on stakeholders and beneficiaries at grassroots level.⁵ Reflecting the emerging demand for analytics, ADB will also engage other international institutions such as the CAREC Institute and the ADB Institute. In view of the vast demand for international experts and their expected influx through development partners, ADB will closely coordinate its advisory services with, among others, the World Bank, the United Nations agencies, the European Bank for Reconstruction and Development, as well as bilateral donors such as Agence Française de Développement, United States Agency for International Development, and Japan International Cooperation Agency.

D. Resource Allocation

6. As ADB strives to weave in knowledge solutions into all ADB operations, it is challenging to estimate the amount of resources needed to meet the knowledge needs.⁶ The regional and country TA projects specifically focused on knowledge support will be financed by ADB-administered trust funds and other external sources as warranted. Stand-alone country TA projects are estimated, as of now, at \$27 million during 2019–2023. The country director of ADB's Uzbekistan Resident Mission, as the country knowledge plan's custodian, will ensure proactive coordination of knowledge partnerships and solutions following the "One ADB" approach.

E. Knowledge Competence or Expertise

7. To pursue economic diversification and improve the export potential of agribusinesses, Uzbekistan pioneered horticulture value chain improvement through ADB support in Central Asia. In view of Uzbekistan's climatic, spatial, and institutional similarities with neighboring countries, the gained experience in processing and exporting horticulture products can be shared with other ADB members in the region. In addition, Uzbekistan capitalized on tacit knowledge and entrepreneurship of its citizens in diversifying the sources of households' income, creating employment, and developing rural economies through the promotion of SMEs. ADB will capture experience, lessons, and knowledge generated from the projects and share with neighboring economies in the region.

⁵ Examples of civil society organizations in Uzbekistan for collaborative knowledge provision are the Center for Economic Development, Center for Social Research (*Tahlil*), Business Women Association (*Tadbirkor Ayol*), Association of Microfinance Organizations.

⁶ Another reason is the use of ADB's regional TA operations for Uzbekistan's needs.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=UZB-2019>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Indicative Country Operations Business Plan