Country Partnership Strategy

August 2012

Uzbekistan
2012–2016

This document is being disclosed to the public prior to Board consideration in accordance with ADB’s Public Communications Policy (2011). Subject to any revisions required following Board consideration, this document is deemed final.

Asian Development Bank
CURRENCY EQUIVALENTS
(as of 1 August 2012)
Currency unit – sum (SUM)
SUM1.00 = $0.00052
$1.00 = SUM1,904.90

ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
CAPE – country assistance program evaluation
CAREC – Central Asia Regional Economic Cooperation
CPS – country partnership strategy
GDP – gross domestic product
MFF – multitranche financing facility
SMEs – small and medium-sized enterprises
TA – technical assistance
WIS – welfare improvement strategy

NOTE
In this report, “$” refers to US dollars.
**Vice-President**  
X. Zhao, Operations 1

**Director General**  
K. Gerhaeusser, Central and West Asia Department (CWRD)  
K. Higuchi, Uzbekistan Resident Mission, CWRD

**Team leaders**  
S. Parvez, Economist, CWRD  
I. Gulamov, Senior Economics Officer, CWRD

**Team members**  
R. Abdukayumov, Procurement Specialist, Central Operations Services Office  
E. Araneta, Principal Operations Coordination Specialist, Private Sector Operations Department (PSOD)  
N. Benzino, Operations Assistant, CWRD  
R. Butiong, Principal Regional Cooperation Specialist, CWRD  
Y. Elhan-Kayalar, Principal Public Management Specialist, CWRD  
C. Espina, Economics Officer, CWRD  
B. Gafurov, Senior Private Sector Development Officer, CWRD  
B. Goalou, Urban Development Specialist, CWRD  
V. Joshi, Environment Specialist, Regional and Sustainable Development Department (RSDD)  
A. Kelly, Principal Economist, CWRD  
S. Khan, Principal Portfolio Management Specialist, CWRD  
M. Khudayberdiyeva, Senior Social Development Officer, CWRD  
D. Kucan, Senior Urban Development Specialist, CWRD  
M. Kunzer, Principal Environment Specialist, RSDD  
J. Ludwig-Marooof, Public Management Specialist, RSDD  
K. Mitsuhashi, Energy Specialist, CWRD  
R. Nadyrshin, Senior Portfolio Management Officer, CWRD  
R. Narasimham, Principal Public Management Specialist, CWRD  
S. Roth, Social Development Specialist, CWRD  
A. Schou-Zibell, Senior Economist, CWRD  
S. Shah, Senior Investment Specialist, PSOD  
N. Singru, Senior Transport Specialist, CWRD  
N. Talipova, Senior Social Sector Officer, CWRD  
T. Tamaki, Principal Regional Economist, CWRD  
V. Tan, Director, CWRD  
S. Wermert, Principal Investment Specialist, PSOD  
D. Dole, Resident Representative, Armenia Resident Mission, CWRD  
D. Park, Principal Economist, Economics and Research Department  
R. Sabirova, Evaluation Specialist, Independent Evaluation Department (independent reviewer)  
W. Um, Deputy Director General, Regional and Sustainable Development Department  
C. Yu, Principal Results Management Specialist, Strategy and Policy Department

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### COUNTRY AT A GLANCE

#### Economic

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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>GDP ($ billion, current)</td>
<td>22.3</td>
<td>29.5</td>
<td>34.0</td>
<td>39.0</td>
<td>45.3</td>
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<td>GDP per capita ($, current) a</td>
<td>827.4</td>
<td>1,078.0</td>
<td>1,224.5</td>
<td>1,381.0</td>
<td>1,580.3</td>
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<td>GDP growth (% in constant prices)</td>
<td>9.5</td>
<td>9.0</td>
<td>8.1</td>
<td>8.5</td>
<td>8.3</td>
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<td>Agriculture</td>
<td>6.1</td>
<td>4.5</td>
<td>5.8</td>
<td>6.9</td>
<td>6.6</td>
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<td>Industry</td>
<td>12.1</td>
<td>12.7</td>
<td>9.1</td>
<td>8.5</td>
<td>6.3</td>
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<tr>
<td>Services</td>
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<tr>
<td>Gross domestic investment (% of GDP)</td>
<td></td>
<td></td>
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<td>...</td>
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<tr>
<td>Consumer price index (annual % change)</td>
<td>6.8</td>
<td>7.8</td>
<td>7.4</td>
<td>7.3</td>
<td>7.6</td>
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<tr>
<td>Liquidity (M2) (annual % change)</td>
<td>49.2</td>
<td>38.7</td>
<td>40.9</td>
<td>52.4</td>
<td>27.7</td>
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<tr>
<td>Overall fiscal surplus (deficit) (% of GDP) b</td>
<td>1.1</td>
<td>1.5</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Merchandise trade balance (% of GDP)</td>
<td>8.5</td>
<td>7.9</td>
<td>6.0</td>
<td>7.7</td>
<td>9.6</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>7.3</td>
<td>8.9</td>
<td>2.2</td>
<td>6.6</td>
<td>8.1</td>
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<tr>
<td>External debt service (% of exports of goods and services)</td>
<td>8.7</td>
<td>6.2</td>
<td>5.8</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>External debt (% of GDP)</td>
<td>16.7</td>
<td>14.8</td>
<td>16.0</td>
<td>17.6</td>
<td>16.6</td>
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#### Poverty and Social

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<tbody>
<tr>
<td>Population (million)</td>
<td>26.9</td>
<td>27.3</td>
<td>27.8</td>
<td>28.6</td>
<td>29.3</td>
</tr>
<tr>
<td>Population growth (annual % change)</td>
<td>1.4</td>
<td>1.6</td>
<td>1.7</td>
<td>2.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Maternal mortality ratio (per 100,000 live births)</td>
<td>23.5</td>
<td>22.4</td>
<td>30.4</td>
<td>21.0</td>
<td>...</td>
</tr>
<tr>
<td>Under-five mortality rate (below 1 year/per 1,000 live births)</td>
<td>13.6</td>
<td>12.5</td>
<td>11.7</td>
<td>11.0</td>
<td>...</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>72.7</td>
<td>72.9</td>
<td>72.9</td>
<td>73.1</td>
<td>...</td>
</tr>
<tr>
<td>Adult literacy (%)</td>
<td>99.6</td>
<td>99.9</td>
<td>99.9</td>
<td>99.9</td>
<td>99.9</td>
</tr>
<tr>
<td>Primary school gross enrollment (%)</td>
<td></td>
<td>92.8</td>
<td>91.8</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Population below poverty line (%)</td>
<td>23.6</td>
<td>21.8</td>
<td>19.5</td>
<td>17.7</td>
<td>16.0</td>
</tr>
<tr>
<td>Urban population with access to safe water (%)</td>
<td>82.9</td>
<td>83.2</td>
<td>82.5</td>
<td>82.5</td>
<td>82.6</td>
</tr>
<tr>
<td>Urban population with access to sanitation (%)</td>
<td>31.5</td>
<td>33.1</td>
<td>37.0</td>
<td>39.0</td>
<td>56.3</td>
</tr>
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</table>

#### Environment

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<tbody>
<tr>
<td>Carbon dioxide emissions (million tons)</td>
<td>114.9</td>
<td></td>
<td>[2008]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carbon dioxide emissions per capita (tons)</td>
<td>4.1</td>
<td></td>
<td>[2008]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forest area (km²)</td>
<td>32,756</td>
<td></td>
<td>[2010]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>35.9</td>
<td>43.8</td>
<td>51.6</td>
<td>51.5</td>
<td>51.7</td>
</tr>
</tbody>
</table>

#### ADB Portfolio (sovereign loans, as of 31 December 2011)

<table>
<thead>
<tr>
<th></th>
<th>OCR</th>
<th>ADF</th>
<th>Total</th>
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<tbody>
<tr>
<td>Total number of loans</td>
<td>10</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>Net loan amount ($ million, cumulative)</td>
<td>1,083.8</td>
<td>459.2</td>
<td>1,543.0</td>
</tr>
<tr>
<td>Disbursements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total funds available for withdrawal ($ million)</td>
<td>1,083.8</td>
<td>459.2</td>
<td>1,543.0</td>
</tr>
<tr>
<td>Disbursed amount ($ million, cumulative)</td>
<td>199.5</td>
<td>116.0</td>
<td>315.5</td>
</tr>
<tr>
<td>Percentage disbursed (disbursed amount/total available)</td>
<td>18.4</td>
<td>25.3</td>
<td>20.4</td>
</tr>
</tbody>
</table>

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, km² = square kilometer, M2 = broad money, OCR = ordinary capital resources.

a Any inconsistency between the reported GDP per-capita numbers with the reported GDP and population estimates is attributed to difference in calculating methodologies.

b Excludes receipts from the Fund for Reconstruction and Development.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. Uzbekistan is one of the fastest-growing economies in Central Asia, and aspires to become an upper middle-income country by 2020. Its main challenge is to sustain its remarkable economic growth to create more jobs and improve the welfare of citizens. After independence in 1991, the Government of Uzbekistan’s immediate priorities were to improve the welfare of the population and maintain social stability. For the next decade, the government focused on economic and social development backed by strong macroeconomic management. As a result, per capita income in Uzbekistan increased from $542 in 2005 to $1,580 in 2011. The percentage of the population living below the poverty line fell to 16.0% in 2011 from 25.8% in 2005, according to official estimates. In addition, despite unevenness in certain targets, Uzbekistan made progress on the Millennium Development Goals—including progress on women’s empowerment and achieving gender parity on access to social services.

2. Strong macroeconomic fundamentals and effective countermeasures implemented by the state enabled Uzbekistan to largely override the impact of the global financial crisis of 2008–2009. The government attributes its success in managing the fallout of the crisis to its policy of “gradualism,” under which it has taken incremental reforms in its transition to a market economy but avoided destabilizing shocks to its economic system. The government recognizes the need to maintain the consistency of reforms. It also emphasizes the imperative to industrialize and diversify the economy, with more jobs and business opportunities in the private sector for balanced development of urban and rural areas. Overcoming the infrastructure deficit and promoting small and medium-sized enterprises (SMEs) is considered essential to transform the national economic landscape, create employment, and promote industrialization. Starting from a low economic base, Uzbekistan has significant potential to grow and join the ranks of the higher income countries of the region.

B. Economic Assessment and Outlook

3. Uzbekistan’s macroeconomic policies have led to (i) sustained economic growth (averaging over 8% from 2005 to 2011); (ii) improved welfare and reduced unemployment (gross domestic product [GDP] per capita nearly trebled from 2005 to 2011 (para.1), and unemployment halved from 10% of the labor force in 2005 to 5% in 2010); (iii) fiscal and external surpluses (surplus budget and current account surplus for the last 7 years, and official reserves increased to $19.8 billion in 2011 from $2.9 billion in 2005); (iv) a significantly reduced stock of external debt (the ratio of external debt to GDP in 2011 was 16.6% compared with 30.2% in 2005); and (v) increased foreign and domestic investments (foreign direct investment increased from $88 million in 2005 to about $2.3 billion in 2011, investments in fixed capital increased from 19% of GDP in 2005 to 26% in 2011).

4. A robustly performing industrial sector has driven Uzbekistan’s growth with a strong natural resource sector and a manufacturing base led by the automobile, chemical, and machinery sectors. Construction activities spurred by a vibrant public investment program, and a dynamic services sector, have also boosted growth. The current account surplus is due to exports of chemicals, automobiles, non-ferrous metals, cotton, and fruit and vegetables. This

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1 Poverty Analysis (Summary) and Gender Analysis (Summary) (accessible from the list of linked documents in Appendix 2).
has led to an accumulation of foreign reserves, which are partly transferred to the Fund for Reconstruction and Development to finance public infrastructure. The fund’s proceeds have also helped balance the budget. However, inflation remains high and has to be addressed through effective fiscal, monetary, and exchange rate policies.

5. Generally stable macroeconomic conditions and robust growth are set to continue. Modernization of key sectors of the economy will support growth, as will higher public investment and construction, to meet the long-term targets of the government’s industrialization program. Developing a sophisticated and diversified industrial and exports base under this program will sustain growth and create jobs. Even though Uzbekistan has increased the diversity of its exports over the last 15 years, which now include automobiles, chemicals, and alloys, the level of diversification and sophistication of its exports trails other countries in Asia and could be significantly enhanced.\(^3\) Policies and investments that improve the business environment of the country, promote the role of the private sector, and strengthen infrastructure and logistics are needed to develop a diversified and sophisticated export sector. Given the renewed global economic uncertainty that might impact Uzbekistan’s exports in the short term, the government has planned measures to boost domestic demand to maintain the national growth momentum.

C. Highlights of Previous ADB Country Strategy

6. In line with the government’s priorities, the country strategy and program for 2006–2010 of the Asian Development Bank (ADB) centered on supporting (i) sustainable rural development, (ii) private sector development and financial sector improvement, (iii) regional cooperation, and (iv) human development.\(^4\)

7. A country assistance program evaluation (CAPE) for Uzbekistan rated the 2006–2010 country program successful.\(^5\) Three of the five sectors evaluated under the CAPE—transport, water supply and sanitation, and education—were rated successful. The remaining two—agriculture and natural resources, and finance—were rated partly successful. The CAPE found ADB’s client responsiveness to be a key factor for the success of the country program. It concluded that ADB had been more successful in infrastructure development than in promoting reforms and underlined the importance of sector road maps to support future reform efforts. The CAPE recommended that ADB maintain its sector focus, but remain responsive to government priorities and division of labor with development partners. It advocated demand-based support for reforms in the financial and other sectors, and for private sector development and knowledge management. It stressed the need for a strategy to guide the selection of lending modalities, and underscored the importance of an improved results framework in the new country partnership strategy (CPS).

8. The CAPE found overall portfolio performance in Uzbekistan to be satisfactory. The disbursement rate for loans, although lower than the ADB-wide average for the CPS period, picked up strongly in 2009 (but fell again in 2010 and 2011 with the enlarged portfolio). The processing time for projects from fact-finding to approval by ADB’s Board of Directors reduced significantly to 0.3 year in 2009 from 1.4 years in 2002. However, startup delays on some projects meant that these were completed after their closing dates. A mismatch between government and ADB procurement procedures, mainly on account of price verification after

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\(^5\) Country Assistance Program Evaluation (accessible from the list of linked documents in Appendix 2).
award of contracts as part of contract registration, explains a part of these delays. The CAPE recommended ADB to strengthen dialogue with the government on raising the efficiency of the public procurement system.

II. THE COUNTRY STRATEGY

A. Government National Strategy

9. An updated welfare improvement strategy (WIS II) for 2012–2015 provides a vision for national development. WIS II seeks to support inclusive economic growth through fostering a modernized and diversified economy, and creating equitable economic opportunities. Specific objectives of the WIS II include deepening economic reforms and creating an enabling environment for private sector development, promoting employment through export-led growth, supporting improvements in health and education, and strengthening social security systems. Specific priorities for national development are articulated in a series of recent presidential decrees and policy statements.

10. The government’s main priority is to modernize the economy and generate productive employment through economic diversification. This is to be achieved through (i) industrial development and private sector mobilization, and (ii) reducing the rural–urban gap by expanding economic and social development opportunities in rural areas.

11. **Industrial development.** Bridging the infrastructure gap, developing the energy sector, and raising private sector competitiveness are prerequisites for industrial development. The government estimates an investment requirement of $47 billion during 2011–2015 to develop infrastructure and industrial projects. Recognizing that this investment requirement cannot be met by the public sector alone, the government plans to mobilize private sector participation in industrial development. Setting up the Navoi free economic zone and the Angren special industrial zone provides major industrial development opportunities for the private sector.

12. **Rural development and job creation.** The government plans to reduce urban–rural disparities in living standards through rural development and a focus on job generation. Priorities include improvement of rural infrastructure, housing, skills generation, rural enterprise and microfinance development, and expanded access to finance.

13. **ADB’s Strategy 2020.** Strategy 2020 shares with WIS II the goal of promoting sustained and inclusive growth. Infrastructure, which is a core operational area of Strategy 2020, is a key investment priority of the government. Strategy 2020’s focus on regional cooperation is consistent with the government’s strategy to strengthen transport connectivity and trade links with regional countries. Strategy 2020’s focus on environment and climate change mitigation through renewable energy development is aligned with the government’s priority on clean

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6 The WIS II is expected to be endorsed by the Government of Uzbekistan in September 2012.
energy and solar power development. Private sector and financial sector development, along with gender equity, are common drivers of change in ADB and government strategies.

14. Development assistance. ADB has expanded its development assistance to Uzbekistan in support of transport, energy, water, finance, rural infrastructure, and regional cooperation projects. The World Bank’s approved CPS for Uzbekistan for 2012–2015 provides support for economic diversification, education, human development, infrastructure strengthening, and agriculture development. The International Finance Corporation supports private sector investments in petrochemicals and other sectors. United Nations agencies support access to education and health, environmental sustainability, and governance. The Islamic Development Bank assists with infrastructure and agriculture development. The Japan International Cooperation Agency supports human resource and infrastructure development. German development cooperation supports microfinance, agribusinesses, and healthcare development. A development coordination matrix summarizes activities of development partners in Uzbekistan. An Interagency Council on Cooperation under the Cabinet of Ministers on implementation of large and strategically important investment projects and the Department on Coordination and Control of Purposeful Utilization of Humanitarian Aid and Technical Assistance Funds of the Ministry of Finance coordinate development assistance.

B. ADB Country Strategy

15. This CPS supports Uzbekistan’s transformation into a modern industrial and service economy through sustained and inclusive growth, a reduction in poverty, and expanded regional cooperation. Strategic assistance to be provided under the CPS will catalyze industrial development, accelerate economic diversification, promote private sector development, ensure climate-resilient investment, and create new jobs for women and men. The framework of the CPS is summarized in the figure.

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The development coordination matrix is in the Country and Portfolio Indicators, Table 5 (accessible from the list of linked documents in Appendix 2).
16.  Transformation of the economy requires a strong collaborative partnership between the public and private sectors and a gradual rebalancing of their respective roles. To this end, the CPS will support the government in creating enabling conditions for structural transformation, including developing modern infrastructure and pioneering reforms to strengthen the business environment for the private sector. It will also assist the private sector to emerge over time as an engine of growth and investment to modernize and diversify the industrial base of the economy.

17.  The CPS is selective and focused, with a clear outcome and outputs. Sectors selected for support in the CPS are premised on the country’s development requirements, ADB’s sector experience and comparative advantage, recommendations of the CAPE, findings of background studies and assessments, and a division of labor with development partners. While consistent with these selectivity principles, this CPS represents both strategic and operational continuity with ADB’s present business lines in Uzbekistan. The government and ADB agree that the current areas of bilateral partnership remain relevant to the country’s needs, even though there is a need to deepen engagement to maximize development impact.

18.  This CPS prioritizes transport, energy, municipal services, water, and access to finance. Governance and demand-led reforms, regional cooperation and integration, knowledge management private sector development, gender equity, and climate change and environment are its key drivers. Disaster risk management will be an important consideration in the planning and implementation of infrastructure projects in Uzbekistan.

19.  **Transport and logistics.** ADB will continue to strengthen Uzbekistan’s regional connectivity and trade through investments in Central Asia Regional Economic Cooperation (CAREC) transport corridors. This support will help Uzbekistan develop a unified and integrated national transport system with new transport corridors to access regional and global markets. Specific objectives of ADB’s support are to upgrade Uzbekistan’s transport infrastructure and ease cross-border movement of goods to improve its economic competitiveness. Sustaining the built infrastructure through regular rehabilitation and maintenance is also a priority.

20.  Key support areas are rehabilitation and construction of new roads and low carbon electrification of railways along these corridors. Institutional capacities and governance in the road and rail transport subsectors will be strengthened by improving asset management and maintenance systems. Gender analysis for transport projects will be strengthened to ensure projects benefit women.

21.  **Energy efficiency and security.** ADB will provide support for energy efficiency enhancement as this is closely aligned with Uzbekistan’s emphasis on promoting energy security and affordability, and reducing energy intensity. Uzbekistan’s energy intensity per unit of GDP is one of the highest in the world and significantly above other middle-income countries. As a result of intensive industrial use of energy, carbon emissions per unit of GDP in Uzbekistan are among the highest in the world. Lowering energy intensity and carbon emissions will increase the economy’s competitiveness and mitigate climate change impacts.

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10 Basic education is not included as a sector focus in the CPS under the selectivity principle, as other development partners are providing significant assistance to Uzbekistan in this area (para. 14). However, the CPS includes the possibility of providing support for technical and vocational training in support of SME development (para. 26).

22. ADB is already supporting energy-efficient generation plants in Uzbekistan. In addition, it is assisting development of the country’s solar power potential to reduce its carbon footprint, through improving the policy and regulatory framework and establishing a solar energy institute. Assistance for improved electricity metering is promoting efficiency and increasing the reliability of power supply for businesses and households. Support for new transmission and generation projects will boost the capacity and efficiency of the power sector. Capacity development and institutional improvement of sector agencies will strengthen service delivery and promote private sector participation.

23. **Municipal and utilities infrastructure and services.** ADB will provide continued assistance to develop Uzbekistan’s municipal infrastructure and services, linked with regulatory and institutional reform, to ensure long-term sustainability. Uzbekistan’s strong growth and rising population has increased demand for utilities in cities and urban areas. There are large requirements to replace aging infrastructure and improve the quality, coverage, and climate resilience of municipal services including water supply and sanitation, wastewater and solid waste management, district heating, and transport.

24. Support will focus on building the institutional and management capacities of utilities that target enhanced corporate practices to improve their cost recovery and strengthen accountability. Holistic approaches will be explored to promote vibrant and livable cities. Public–private partnership contracts for bulk water supply and performance-based service contracts for smaller municipalities will be pilot tested. Women will be primary beneficiaries, as access to municipal services will help reduce their workloads and improve their health.

25. **Water resource management and irrigation.** Besides ongoing support for land improvement and agricultural productivity enhancement, ADB will provide new assistance for climate-resilient rehabilitation of a major irrigation system. This will make the system more energy-efficient and reduce the cost of its operations. ADB will also support continued improvements in climate-adaptive on-water management and the productivity of water resources. This assistance supports the government’s rural development program launched in 2009, which places priority on improving water management, increasing the productivity of water use, and rehabilitating irrigation systems. It is important because Uzbekistan continues to face problems arising from increasing water stress, with its resource-intensive irrigation system and lesser glacial water flows as a result of global warming.

26. **Finance for small and medium-sized enterprises, microfinance, and rural housing.** ADB will support access to credit for SMEs and for microfinance beneficiaries in rural and urban areas through new and ongoing assistance. Lines of credit through commercial banks will help the growth of the SME sector, and create up to 30,000 new jobs by 2016. Targeted assistance through microcredit organizations for low-income borrowers, especially women, will expand their income opportunities. This support is needed as access to credit for small borrowers in Uzbekistan is still low, despite improvements, and reduced by the recent suspension of credit unions. The support is consistent with the government’s focus on expanding access to finance for SMEs and microfinance borrowers to promote inclusive growth. To recognize their role, the

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13 Water supply, sanitation, and hygiene improvements are being supported through an ongoing facility: ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Republic of Uzbekistan for the Water Supply and Sanitation Services Investment Program.* Manila.

government designated 2011 the year of small businesses and took steps to simplify business procedures and improve their access to bank credit. In 2010, it announced steps to strengthen microcredit organizations, leasing, insurance companies, and e-commerce. Besides access to finance, ADB could support technical and vocational training for skills generation to support entrepreneurship and employment in the SME sector.

27. Ongoing ADB assistance will help provide access to long-term housing finance and lead to the building of 40,000 new houses for rural households by 2016. New technical assistance (TA) will be provided to deepen access to the financial sector. Support for trade finance will help businesses expand export and import activities.

28. **Governance and demand-led reforms.** ADB will support improvements to governance through demand-led reforms that the government drives and owns. A three-tiered strategy will be adopted. First, institutional and regulatory reforms will be mainstreamed in the priority operational sectors of the CPS (paras. 20, 22, 23, and 24). Second, reforms to improve the enabling business environment for private sector development will be supported (para. 32). Third, support will be offered for the government’s reform priorities in the areas of public management, project implementation, and procurement (paras. 39 and 42). Policy dialogue, TA, and knowledge products will be the main support modalities in these areas.

29. **Regional cooperation.** Recognizing the need to unlock the potential for regional cooperation and integration, ADB supports Uzbekistan’s closer collaboration with other countries for economic development of the Central Asia region. A double landlocked country, Uzbekistan needs faster, more efficient, and less costly access to international ports and markets to expand trade, generate business opportunities, and promote industrialization. To improve its regional trade competitiveness, Uzbekistan is rapidly upgrading its transport system and cross-border infrastructure. The new ADB-assisted rail link from Uzbekistan to Afghanistan will help boost Uzbekistan’s trade and build its traction as a transit link for trade from Europe to Asia. Under the CAREC 2020 framework, Uzbekistan is committed to transforming transport corridors into logistics and economic corridors to support regional development. Regional electricity trade is also a priority.

30. ADB’s support for new CAREC corridor investments, including upgrading and improving road and rail connections and strengthening logistics, will strengthen Uzbekistan’s connectivity and expand trade. Cross-border facilities will be improved. Opportunities will be explored to streamline customs procedures and support Uzbekistan’s accession to cross-border transport agreements. Assistance for energy efficiency will allow Uzbekistan to generate larger surpluses for energy export to Afghanistan and other energy-deficient countries in the region.

31. **Knowledge management.** The government wants ADB to be not just a financier of projects but also a source of knowledge and advice, and has expressed increasing interest in its knowledge products and solutions. ADB will expand its focus on preparing demand-based knowledge products that are relevant to the country’s needs. Regular monitoring and reporting on the economy will be maintained. Analytical support for the monitoring and evaluation of the WIS II will be provided. ADB will also contribute analysis in support of the government’s plans to deepen the diversification of the economy and improve the business environment for private sector development. Knowledge products to support ADB’s sector operations will be prioritized. ADB will assist with project development and implementation and provide government

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counterparts with the necessary skills to ensure effective project management. Strategic road maps for the ADB-assisted infrastructure sectors are being prepared to guide future investment priorities and identify critical reform areas. Rigorous impact assessments of carefully selected infrastructure projects will be commissioned to feed lessons learned into new operations. Collaboration with qualified national research institutions will be strengthened.

32. **Private sector development.** ADB will support private sector development through assistance for infrastructure and services and access to finance. Meaningful expansion in the role of the private sector will require substantive improvements to the business environment to reduce the high cost of trading across borders, deepen the financial sector, streamline the tax system, liberalize regulations, and provide sufficient access to foreign exchange. To help improve the business environment, ADB will provide demand-led TA in areas identified jointly with the government. Assistance to strengthen the insurance market’s regulatory framework is planned, while new support for development of the securities market could be provided. ADB will support implementation of the government's privatization program by strengthening legal and regulatory frameworks for public–private partnerships, and improving corporate governance in the private and public sectors. TA to improve regulations governing small business activities, and support for Uzbekistan's accession to the World Trade Organization could also be provided.

33. **Private sector operations.** To support greater private sector participation in Uzbekistan, ADB intends to expand its direct private sector operations. In the financial sector, besides trade finance (para. 27), operations would focus on institutions engaged in lending and leasing operations to support SMEs, microfinance, and agribusiness and food processing. ADB’s private sector operations in infrastructure will continue to focus on the upstream and downstream development of its natural resources, inclusive of petrochemical and refinery projects, which are needed to bolster value-added export products. Other manufacturing and processing industries may be supported, particularly where environmental improvement and energy-efficient improvements are key objectives. Support to infrastructure sectors with prospects for opening up to private investors—such as transport and logistics, solar power generation, and clean energy debt and/or equity financing—will be considered.

34. **Gender equity.** ADB will complement the government’s programs for women’s employment to help improve their economic and social standing. Assistance for SMEs and microfinance will help business development and income generation for women entrepreneurs, as will assistance for reliable electricity provision and energy efficiency measures that will incentivize home-based enterprises and lead to increased productivity of women. Assistance for better municipal services will reduce women’s excessive workloads and contribute to the health and hygiene of families. A gender staff position in the Uzbekistan resident mission has helped improve integration of gender concerns in ADB’s assistance portfolio.

35. **Climate change and environment.** ADB will integrate environmental and climate change considerations into its sector operations in a better manner. This is important to support Uzbekistan in addressing its key environmental challenges, including deteriorating water quantity and quality, high carbon-intensive energy use, weak implementation capacities of climate change and environmental agencies, and high risk to climate impacts with low adaptive capacity. As part of this support, ADB will help build government capacity for climate risk management practices and facilitate access to climate change financing. Support for clean energy and energy efficiency will cut greenhouse gas emissions and mitigate climate change impacts, as will assistance for transport sector modernization that will reduce fuel use and vehicle emissions. Urban environment improvement will be supported through assistance for water supply and sanitation and solid waste management projects. Support for irrigation
projects will promote greater availability of water and sustainable agricultural practices to reduce environmental degradation in rural areas.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

36. A $2.4 billion assistance package is proposed for 2012–2014. This comprises public and private sector loans and credit enhancement products. In addition, ADB will leverage its support to raise additional financing for Uzbekistan’s development including through partnerships and cofinancing from other development partners. The indicative public sector resource envelope totals about $1.3 billion for the period. Of this, about $150 million annually will be sourced from the Asian Development Fund (ADF), assuming Uzbekistan maintains its current ratings on the country performance assessment exercise.¹⁶ The remaining public sector assistance will be provided from ordinary capital resources. Additional standby public sector assistance is programmed, which will depend on resource availability and portfolio performance. ADB, on 27 April 2011, approved new cost sharing and financing eligibility parameters for Uzbekistan under which its cost share is up to 80% of the total cost of projects, an increase over the previous 70% share. TA grants for project preparation, demand-led reforms, capacity development, and knowledge management of about $3.5 million annually will also be extended.

B. Program Overview

37. ADB’s support will remain flexible and responsive to accommodate emerging development needs in Uzbekistan. A country operations business plan, to be updated annually, will reflect necessary adjustments to the country program in line with national priorities on an ongoing basis. A significant part of the proposed lending program for 2012–2014 represents a continuation of project-based assistance being provided to Uzbekistan through ongoing multitranche financing facilities (MFFs). The choice of the MFF modality is premised on the need to have a programmatic solution to meeting Uzbekistan’s substantial financing needs in the infrastructure sectors over a number of years. The MFF approach has helped create clarity and certainty within the government on the assistance expected from ADB and has contributed to aligning this assistance with the priorities of the public sector investment program. MFFs will support Uzbekistan’s financing needs for upgrading CAREC road corridors, improving water supply and sanitation, and constructing rural housing.¹⁷

38. The remaining lending assistance will be channeled through stand-alone project loans to finance investments in the prioritized sectors. Such project assistance will rehabilitate irrigation systems, strengthen solid waste management, upgrade transmission networks, and support energy generation. This emphasis on project finance is consistent with the thrust of the CPS on upgrading the country’s infrastructure and is aligned with the implementation capacity of executing agencies. Support for capacity and institutional improvement is built into the proposed lending assistance. In addition, stand-alone TA support is included for demand-led reforms in priority areas. Support for access to finance will be provided through a financial intermediation modality to channel funds via financial institutions to SMEs and microfinance borrowers. This is

¹⁶ Uzbekistan is classified by ADB as having a per capita gross national income higher than ADB’s cutoff for eligibility for ADF financing ($1,175 in 2010), but has not yet met all the criteria (such as adequate creditworthiness for market-based resources) to graduate from ADF assistance. Therefore, while ADF assistance to Uzbekistan continues, ADB will initiate discussions with the government during implementation of the CPS on the possibility of Uzbekistan’s subsequent graduation from ADF, beginning possibly from the next CPS cycle.

¹⁷ Country Operations Business Plan (accessible from the list of linked documents in Appendix 2).
because the individual financing requirements of these entities are small and cannot be met efficiently through direct assistance from ADB.

39. Particular attention will be given to improving project implementation and portfolio performance. The recent reorganization and upgrading of the government’s tender committees is expected to help reduce delays associated with price verification and contract registration. ADB will continue close interaction with the government to (i) enhance public procurement processes, particularly for systematic and standardized operational procedures; and (ii) help demonstrate their effective implementation through ADB-assisted projects. As a complementary effort, ADB is helping Uzbekistan develop a comprehensive database of foreign-financed development projects, and providing training to public officials on the use of the database. New TA could be provided to strengthen the capacity of national project design institutes.

IV. RESULTS MANAGEMENT

A. Monitoring

40. Progress on the CPS will be monitored regularly through a results matrix (Appendix 1) that is fully aligned with national development goals and sector outcomes reflected in WIS II and the various government articulations of sector strategies. It is also consistent with ADB’s corporate results framework. The matrix identifies clear quantitative indicators on which to measure results of the CPS. It summarizes ADB’s areas of interventions in support of the targeted sector outcomes, and outlines ADB’s indicative sector-wise resource allocations. The matrix will be updated annually during the country portfolio review missions. At a broader level, ADB will help the system-wide integration of the managing for development results agenda in Uzbekistan, including supporting the monitoring and evaluation of WIS II.

B. Risks

41. Macroeconomic stability in Uzbekistan is key to successful implementation of the CPS. Inflation is a risk but this is expected to be managed through effective demand management. The government’s commitment to undertaking reforms is essential to achieve the CPS goals.

42. A governance risk assessment at the country and sector levels has identified risks associated with public financial management, procurement, and institutional accountability; and has proposed relevant mitigation measures. At the country level, public financial management has improved but the budget coverage is not fully comprehensive and development expenditures financed through external loans and grants are not included in the budget. To mitigate this, the government is implementing a medium-term budgetary framework that will minimize off-budget expenditures, link overall budgeting to medium-term policy priorities, and improve the accounting of development spending. At the sector level, the single treasury account still needs to be rolled out. Tariff policies need to be adopted for improved cost recovery and sector budgets need to be made more transparent. Improving the quality of regulation is vital for promoting greater private sector participation at the sector level. Effective enforcement of the country’s anticorruption laws requires strengthening their operational procedures and improving internal and external audit policies and capacities. ADB will support government-led efforts for governance and regulatory improvements, and procurement reforms, at the sector level. Support for this will be provided through stand-alone TA, and leveraging investments to strengthen sector institutions and performance.

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18 Risk Assessment and Risk Management Plan (Summary) (accessible from the list of linked documents in Appendix 2).
### COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

#### Country Development Goals
2. The percentage of the population living below the poverty reduced to 14.0% by 2016 from 17.7% in 2010.
3. The share of industrial sector in GDP rises to 28% by 2015 from 24% in 2010.

#### Sectors Selected for ADB Support

<table>
<thead>
<tr>
<th>Government Sector Objectives</th>
<th>Sector Outcomes that ADB Contributes to and Indicators</th>
<th>ADB Areas of Intervention</th>
<th>ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Transport, and Information and Communication Technology (2020 Core Area 1: Infrastructure and Core Area 3: Regional Integration)</td>
<td>Improved and energy-efficient connectivity and expanded regional trade through a reliable and well-maintained transport system</td>
<td>National roads rehabilitation</td>
<td>$350 million for 2012–2014, 29% of total CPS envelope, of which:</td>
</tr>
<tr>
<td></td>
<td>Efficient movement of people and goods and reduced travel time along strategic transport corridors:</td>
<td>Railways infrastructure modernization</td>
<td>GRO: 100%</td>
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<td></td>
<td>Traffic volumes on CAREC Corridor 2 from Daudata to Bukhara doubled to 2,500 vpd by 2016 (2011 baseline: 1,200 vpd)</td>
<td>Improvement of cross-border infrastructure and facilities</td>
<td>RCI: 100%</td>
</tr>
<tr>
<td></td>
<td>Cross-border traffic at Daudata border post doubled to 50 trucks a day by 2016 (2008 baseline: 25 trucks)</td>
<td>Road maintenance and safety</td>
<td>CAD: 68%</td>
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<td></td>
<td>Travel time from Daudata to Bukhara reduced to 8 hours by 2016 (2011 baseline: 12 hours)</td>
<td></td>
<td>ENV: 32%</td>
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<tr>
<td>2. Energy (2020 Core Area 1: Infrastructure and Core Area 2: Environment)</td>
<td>Improved energy security, and greater regional energy trade</td>
<td>Combined cycle generation</td>
<td>$434 million for 2012–2014, 36% of CPS envelope, of which:</td>
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<td></td>
<td>Energy efficiency enhanced, and regional energy trade increased:</td>
<td>Solar and other renewable power generation</td>
<td>GRO: 100%</td>
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<tr>
<td></td>
<td>Thermal power generation efficiency increased to 50% by 2016 (2009 baseline: 31%)</td>
<td>Energy efficiency, distribution loss reduction</td>
<td>ENV: 91%</td>
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<td></td>
<td>Greenhouse gas emissions reduced to 2.7 mtCO₂e/GDP by 2016 (2008 baseline: 4.1 mtCO₂e/GDP)</td>
<td>Power transmission</td>
<td>RCI: 39%</td>
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<td></td>
<td>Power exports to Afghanistan and neighboring countries increased to 3 TWh by 2016 (2009 baseline: 1 TWh)</td>
<td>Policy and regulation</td>
<td></td>
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<tr>
<td>3. Water Supply and Other Municipal Infrastructure and Services (2020 Core Area 1: Infrastructure; and Core Area 2: Environment)</td>
<td>Improved and energy-efficient urban environment and living standards</td>
<td>Drinking water and sanitation systems improvement</td>
<td>$182 million for 2012–2014, 15% of total CPS envelope, of which:</td>
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<td></td>
<td>Improved access to better quality municipal services for higher living standards:</td>
<td>Garbage collection, and waste disposal</td>
<td>ENV: 100%</td>
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<td></td>
<td>Close to 100% water supply coverage in urban areas and 85% in rural areas by 2020 for women and men (2008 baseline: 89% for urban and 62% for rural areas)</td>
<td>Public transport</td>
<td>GEN+EGM: 100%</td>
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<td></td>
<td>Drinking water and sanitation systems improvement</td>
<td>Urban governance and planning</td>
<td>SOD: 100%</td>
</tr>
<tr>
<td></td>
<td>Garbage collection, and waste disposal</td>
<td></td>
<td>CAD: 81%</td>
</tr>
<tr>
<td>Government Sector Objectives</td>
<td>Sector Outcomes that ADB Contributes to and Indicators</td>
<td>ADB Areas of Intervention</td>
<td>ADB Indicative Resource Allocation in the Next Pipeline(^a)</td>
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<td>Modern solid waste management systems servicing 30% of population by 2018 (2008 baseline: 15%)</td>
<td>ADB Areas of Intervention</td>
<td>$100 million for 2012–2014, 8% of total CPS envelope, of which:</td>
</tr>
<tr>
<td></td>
<td>Public transport modal share in urban transport raised to 65% by 2020 (2011 baseline: 60%)</td>
<td>Irrigation infrastructure rehabilitation</td>
<td>GRO: 100%</td>
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<tr>
<td></td>
<td></td>
<td>Irrigation systems management</td>
<td>ENV: 100%</td>
</tr>
</tbody>
</table>

4. Agriculture and Natural Resources (2020 Core Area 1: Infrastructure; and Core Area 2: Environment)

<table>
<thead>
<tr>
<th>Sustained increase in agricultural production and rural incomes in an energy-efficient manner</th>
<th>Agricultural productivity of water (the limiting resource) improved and sustained at the river basin level:</th>
<th>Irrigation infrastructure rehabilitation</th>
<th>$150 million for 2012–2014, 12% of total CPS envelope, of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Productivity of water raised to 1.68 kg of wheat per m(^3) of water by 2016 (2011 baseline: 1.40 kg of wheat per m(^3))</td>
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<td>GRO: 100%</td>
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<td></td>
<td>Crop yields increase by 5% by 2016 (2008 baseline: 2.25 tons per hectare for cotton and 4.20 tons for wheat)</td>
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<td>GEN+EGM: 100%</td>
</tr>
</tbody>
</table>

5. Finance (2020 Core Area 4: Finance Sector Development)

<table>
<thead>
<tr>
<th>Increased financial stability and improved access to finance</th>
<th>Increased and more effective financial access for SMEs and other non-state borrowers:</th>
<th>SMEs finance</th>
<th>$150 million for 2012–2014, 12% of total CPS envelope, of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outstanding commercial bank loans to SMEs increase to $2.4 billion in 2016 (2009 baseline: $1.2 billion)</td>
<td>Microfinance</td>
<td>GRO: 100%</td>
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<td></td>
<td>Microfinance lending maintains its present 40% annual increase from 2012 to 2016, while 40% of total new microfinance accounts opened are for women (2012 baseline for microfinance accounts for women: 30%)</td>
<td>Insurance and contractual savings</td>
<td>GEN+EGM: 100%</td>
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<td></td>
<td>SUM2.4 trillion committed in housing loans for 40,800 new rural homes from 2012 to 2016 (2010 baseline: 7,647 rural houses), of which 30% beneficiaries are women</td>
<td>Housing finance</td>
<td>PSD: 9%</td>
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<td></td>
<td></td>
<td>CAD: 100%</td>
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<td></td>
<td></td>
<td></td>
<td>SOD: 91%</td>
</tr>
</tbody>
</table>

\(a\) Indicative, excluding cofinancing and private sector operations.

Source: Asian Development Bank analysis.
1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Transport, and Information and Communication Technology
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Agriculture and Natural Resources (Irrigation, Drainage, and Flood Protection)
9. Sector Assessment (Summary): Multisector (Water Supply and Sanitation, Waste Management, Urban Transport, and Other Municipal Services)
10. Sector Assessment (Summary): Finance
11. Risk Assessment and Risk Management Plan (Summary)
12. Country and Portfolio Indicators
15. Country Partnership Strategy Formulation
17. Country Operations Business Plan
18. Country Assistance Program Evaluation

Supplementary Documents
19. Regional Cooperation and Integration Assessment (Summary)
20. Diversifying Uzbekistan