

Ex-Ante Evaluation (for Japanese ODA Loan)

Central Asia and the Caucasus Division

East and Central Asia and the Caucasus Department, JICA

1. Basic Information

Country: Republic of Uzbekistan (Uzbekistan)

Program: COVID-19 Crisis Response Emergency Support Loan

Loan Agreement: March 26, 2021

2. Background and Necessity of the Program

(1) Current State and Issues of the Development of the Economic Sector in Uzbekistan

The first confirmed case of a person infected by the novel coronavirus disease (hereafter referred to as “COVID-19”) in Uzbekistan was on March 15, 2020. Subsequently, the Uzbekistan government introduced a number of restrictions to limit people’s movements, including orders refraining people from going out, halting public transportation, and closing businesses, excluding those that are essential for managing people’s lives. Even though the restrictions were relaxed in May, they were reintroduced again in the middle of August due to a rapid increase in the number of infected people. While the number of infected people continues to increase, the rate of increase is under control to a certain extent and, as of December 16, the total number of people who had been infected was 75,396, and the number of people who had died was 612.

Many industries suffered major impacts from all the restriction measures that were introduced to control the spread of COVID-19, especially the tourist industry, related service industries, and the distribution industry, and the real economic growth rate for 2020 is predicted to fall to 0.6% (before the COVID-19 crisis it was predicted to be 5.9% by the World Bank (WB)). In addition, due to a decline in employment among people working away from home in countries like Russia, there is a worry that there will be a reduction of over 50% in remittances from abroad (estimated to be around 4.3 billion US dollars), and there is a fear that the domestic unemployment rate will rise by 6.9% from the previous year to 16.5% (International Monetary Fund (IMF), 2020), and it has been pointed out that these factors may cause a rise in the poverty rate (to a maximum of 9.8%, while before the COVID-19 crisis it was predicted to be 7.4% (WB, 2020)).

In response to these economic and social impacts, the Uzbekistan government set up an Anti-Crisis Commission in January of this year and announced a three-pronged approach for economic and social stabilization consisting of measures to (i) ensure the health of the people, with appropriate medical care, (ii) maintain people’s income and livelihood (in particular to protect the socially vulnerable), and (iii) avoid long-term economic deterioration. Regarding the components, (i) involves the procurement of

medical equipment and incentives for health care professionals, (ii) involves the expansion and extension of welfare coverage to guarantee income for the family of infected people, and the expansion of unemployment insurance benefits, and (iii) involves tax reductions and exemptions to support the income and financing of businesses, and import tax reductions and exemptions for medical equipment and food. Taken all together, it is expected that the total capital requirements will rise to US\$2,370 million (4.3% of GDP), and it's predicted that a US\$2,630 million gap in funds will arise. The Uzbekistan government plans to respond to these capital requirements with the government procurement of US\$950 million, and an external loan for the remaining amount of around US\$1,700 million (WB, 2020). Additionally, in comparison with 2020 the funding gap in 2021 is expected to decrease slightly to US\$2,200 million, and they plan to use government procurement for US\$1,200 million, and an external loan for the remaining amount of around US\$1,000 million. While the fundraising for 2020 is generally understood, fundraising for 2021 is planned to be coordinated with each donor from here on, and the steady securing of funds has become a pressing issue.

Furthermore, in addition to the short-term economic measures implemented by the Anti-Crisis Commission mentioned above, considering the situation after COVID-19 has been resolved and in order to achieve future stable economic growth, there is a need to continue with the economic reforms that the Uzbekistan government has consistently promoted since President Mirziyoyev's inauguration in 2016, through the "2017-2021 Strategic Action Plan in Five Priority Areas." Before the COVID-19 crisis, the Uzbekistan government had just started to actively carry out various reforms such as tax reform, abolishing the dual exchange rate, and reform of the electric power sector, and there is a need to continue with reforms in various areas, such as reforms of state-owned businesses and reforms to improve the business environment.

Under these circumstances, this program aims to enable the Uzbekistan government, by providing budgetary support through a co-financed loan with the WB, to implement economic and social stabilization measures for the COVID-19 crisis and various kinds of institutional reforms that have become an issue in the country, in order to revitalize its economy, thereby contributing to Uzbekistan's stable economic growth

(2) Japan and JICA's Cooperation Policy and Operations for the Economic Sector in Uzbekistan

In Country Assistance Policy for Republic of Uzbekistan (March 2017), the Government of Japan states that it will focus on the implementation of support to promote economic growth and redress disparities. In addition, JICA Country's Analysis Paper for the Republic of Uzbekistan (updated in December 2014) stipulates "sustainable economic growth" as a basic policy concerning support for Uzbekistan, and thus this program is consistent with these policies. Furthermore, from the perspective of support to deal with the global impact of COVID-19, this program

contributes to ensuring peace and stability in the “free and open Indo-Pacific.”

Also, the financial support of this program and the implementation of policy actions (see attachment), contributes to SDGs Goal 1 (No Poverty), 3 (Good Health and Well-being), 5 (Gender Equality), and 8 (Decent Work and Economic Growth).

(3) Other Donors' Activities

In response to COVID-19, the WB approved an additional second Development Policy Operation (DPO II) US\$200 million international loan in April this year, as part of its emergency response to COVID-19. Additionally, DPO III (US\$500 million) was approved in December.

The Asia Development Bank (ADB) approved the COVID-19 Active Response and Expenditure Support Program (US\$500 million) in June this year, and also the Power Sector Reform Program (US\$200 million) in September.

The IMF approved a Rapid Credit Facility (US\$375 million) in May this year as emergency financial support.

In addition, ADB and Asian Infrastructure Investment Bank (AIIB) approved and co-financed the COVID-19 Emergency Response Project (US\$100 million from both) in August this year.

3. Program Description

(1) Program Objective: This program in Uzbekistan, where COVID-19 infections are widespread, will contribute to revitalizing the Uzbekistan economy and the promotion of stable growth and developmental efforts, by providing financial support for the Uzbekistan government to improve the efficiency, durability and transparency of resource allocation, in an attempt to enhance economic inclusion and social resilience.

(2) Program Site / Target Area: The whole country of the Republic of Uzbekistan

(3) Program Components: The financial support will enable the Uzbekistan government to promote countermeasures for the coronavirus crisis and initiatives in the following areas.

1) Improve the efficiency, durability and transparency of resource allocation: Make the allocation of financial resources of state-owned financial institutions more efficient, abolish the cotton production management system, abolish the retail price regulations for products like gasoline, improve the PPP business environment, reform state-owned businesses, and enact budgetary reform

2) Enhance economic inclusion and social resilience: Improve the current resident registration system that restricts freedom of movement, improve the current system to eliminate sexual discrimination, strengthen support for vulnerable groups (improve the entitlement application system and increase entitlements)

(4) Estimated Program Cost: Loan Amount 15,000 million yen

(5) Program Implementation Period: The financial support for this program will start

from January 2021 (as this loan is incorporated into Uzbekistan's fiscal year budget for FY2021). The program will be completed when the disbursement of the loan is completed (scheduled for March 2021).

(6) Program Implementation Structure

- 1) Borrower: The Government of the Republic of Uzbekistan
- 2) Guarantor: None
- 3) Executing Agency: Debt Management Office, Ministry of Finance
- 4) Operation and Maintenance Agency: The Debt Management Office from the Ministry of Finance will assemble and assess the results and state of progress of the policy actions carried out by the relevant agencies and organizations.

(7) Collaboration and Sharing of Roles with Other Projects and Donors

- 1) Japan's Assistance Activities: Concerning the area of health, carrying out technical cooperation in the "Project for the Prevention and Control of Non-Communicable Disease," strengthening the ability to provide health services as part of the emergency response to COVID-19, and providing equipment with the aim of enhancing the ability to prevent and treat non-communicable diseases. And, in accordance with this program, supporting Uzbekistan's measures for the COVID-19 crisis.
- 2) Other Donors' Assistance Activities: As mentioned above in 2. (3). This program is a co-financing with the WB's DPO III.

(8) Environmental and Social Considerations/ Cross-Cutting Issues/ Gender Category

1) Environmental and Social Considerations

(i) Category : C

(ii) Reason for Categorization: This program was judged not to have any undesirable impacts on the environment, based on the Japan International Cooperation Agency Environmental and Social Consideration Guidelines (announced in April 2014).

2) Cross-Cutting Issues: Among the policy actions of this program, strengthening the social safety net by increasing entitlements to low-income households will be a direct benefit to the poor, and will be instrumental in controlling the forecast growth of households in poverty in this crisis.

3) Category of Gender: GI (S) (Activity integration item)

<Actions/reasons for classification> This program includes policy actions that enact a law that protects women from harassment and violence, and a law that guarantees rights and equal opportunities to men and women.

(9) Other Important Issues: Nothing in particular

4. Targeted Outcomes

(1) Quantitative Effects: As shown in the attachment

(2) Qualitative Effects: Economic and social stability in Uzbekistan, maintaining

employment, stabilization of vulnerable groups livelihoods, and stable economic growth

(3) Internal Rate of Return: The internal rate of return is not calculated because it's a program-type loan.

5. External Factors and Risk Control

(1) Prerequisites: None

(2) External Factors: Maintenance of measures aimed at resolving the global spread of COVID-19, and the avoidance of a sudden deterioration in the situation around the whole world

6. Lessons Learned from Past Programs

The ex-post evaluation results (FY 2011) of the emergency financial support loans given to three Southeast Asian countries during the 2008 global financial crisis (Philippines "the Emergency Budget Support Japanese ODA loan," Indonesia "Climate Change Program loan (II) (including the Economic Stimulus and Budget Support Loan) ; and Vietnam the Eighth Poverty Reduction Support Credit with Economic Stimulus Support, showed the importance of the timing of giving financial aid, as when funds are given quickly it enhances the effects of one of the objectives of emergency financial aid, which is to prompt that the crisis is swiftly dealt with, so the lesson learned was that, as much as possible, it's advisable to try to simplify the process for giving financial aid, and to have arrangements that are nimble and flexible.

Based on this, this program will try to swiftly provide funds by carrying out co-financing using the WB's existing framework (DPO), as well as using the same policy matrix as the WB, and share other necessary arrangements with the WB, such as monitoring, to promote the formation of programs in Uzbekistan which is under all sorts of movement restriction measures.

7. Evaluation Results

In response to the impact of COVID-19, this program contributes to economic and social stability through the provision of financial aid, and is considered to contribute to SDGs Goal 1 (No Poverty)), 3 (Good Health and Well-being), 5 (Gender Equality), and 8 (Decent Work and Economic Growth). Therefore, it is highly relevant to support the implementation of the program.

8. Plan for Future Evaluation

(1) Indicators to be Used for Future Evaluation: As indicated in Section 4.

(2) Timing: Ex-post evaluation: Two years after program completion

End

COVID-19 Crisis Response Emergency Support Loan Policy Matrix

Objective	Policy Actions (Prior Actions)	Indicator	Baseline	Target
Improving the efficiency, sustainability and transparency of resource allocation in the economy	<p>#1 To increase the efficiency of financial resource allocation and strengthen transparency in the banking sector in implementation of the Government's approved banking law and financial sector reform strategy, the Borrower has:</p> <p>(i) prohibited all new on-lending to State Owned Enterprises ("SOEs") by state commercial banks using subsidized funds from the Uzbekistan Fund for Reconstruction and Development ("UFRD");</p> <p>(ii) required all new commercial bank lending in local currency, from 1 January 2020, to be at interest rates at or above the central bank reference rate, except for government loans for mortgage lending and the production of raw cotton and grains; and</p> <p>(iii) appointed at least one independent director, consistent with requirements in the Banking Law, to each of the boards of at least ten state-owned commercial banks.</p>	<p>The stock of outstanding loans classified as commercial by the Central Bank of Uzbekistan, as a share of the stock of all outstanding banking sector loans.</p>	36 percent (end-2019)	More than 60 percent (end-2021)
		<p>Number of state-owned commercial banks boards where the majority comprises independent directors, consistent with requirements in the Banking Law.</p>	Zero (Jan 2020)	At least 5 (end-2021)
	<p>#2 In accordance with the Borrower's agricultural modernization strategy to increase climate resilience, diversify agriculture, increase the transparency and efficiency of land distribution, and eliminate state agricultural production, the Borrower has abrogated the state cotton order system by removing mandatory cotton production targets and mandatory state procurement of cotton.</p>	<p>An increase in cotton growing area with adopted climate-smart farm technologies.</p>	160,000 hectares (end-2019)	300,000 hectares (end-2021)
	<p>#3 To reduce inefficient fossil fuel subsidies, the Borrower has abrogated the State's regulation of the retail price of AI-80 petroleum, diesel, and ECO diesel.</p>	<p>Retail prices of all unleaded petroleum (AI80 and above) and diesel (including ECO Diesel) are determined by the market and free of direct government subsidies.</p>	Retail price set by government decree with provisions for direct subsidies (March 2020)	Retail price determined by commodity exchange trading and is not directly subsidized by any regulatory legal acts (end-2021)
	<p>#4 To enhance the enabling environment and transparency of public-private partnerships ("PPPs") in the renewable energy and other infrastructure sectors, the Borrower has submitted legislative draft amendments to the PPP and Currency Regulation Laws, for Parliamentary approval, to:</p> <p>(i) allow the Government to enter foreign currency financial commitments in PPP concession agreements and allow financial compensation to be</p>	<p>Megawatts of renewable energy generation capacity that have been transparently and competitively tendered as PPPs,</p>	100 MW (September 2020)	500 MW (end-2021)

	<p>paid to investors against losses which may arise from changes to legislation in force on the date of the partnership agreement; and</p> <p>(ii) strengthen public information disclosure requirements for PPP tenders and PPPs under implementation.</p>	<p>consistent with the PPP Law, and whose tender process has been concluded.</p>		
	<p>#5 To improve the financial transparency and performance of state-owned enterprises (SOEs) and reduce state ownership of assets, the Borrower has:</p> <p>(i) required 32 of the largest SOEs by financial valuation to (a) adopt international financial reporting standards, (b) prepare enterprise financial recovery strategies, and (c) obtain international credit ratings starting from 2021; and</p> <p>① (ii) approved a list of SOEs that will be divested of government ownership via a competitive process.</p>	<p>An improvement in government institutional arrangements to support a more systematic approach to privatization.</p>	<p>State Commission for Tendering the Sale of State Property (SCTSSP) does not exist, and privatizations are approved on a case-by-case basis. (October 2020)</p>	<p>SCTSSP is established and has commenced the valuation and determination of sale methods for SOEs listed for divestiture under the approved Resolution (end-2021)</p>
	<p>#6 To increase fiscal transparency and strengthen public ownership of the State Budget, the Borrower has enacted amendments to the Budget Code of the Republic of Uzbekistan to:</p> <p>(i) vest the Parliament, Jokargy Kenes¹, and regional kengashlar² with the responsibility of approving their respective budgets; and</p> <p>(ii) incorporate the income and expenses of the Uzbekistan Fund for Reconstruction and Development in the State Budget Law draft.</p>	<p>Increased transparency and accountability of the general government budget.</p>	<p>UFRD income and expenses not included in the consolidated government budget approved by Presidential Decree (2019)</p>	<p>UFRD income and expense included in the consolidated 2020 and 2021 State Budgets, and all supplementary budgets in those years, that are approved by the Parliament (end-2021).</p>
Enhancing economic inclusion and social resilience	<p>#7 To increase domestic labor mobility, improve access to public services such as health and education, and expand economic opportunities for citizens, the Borrower has:</p> <p>(i) reduced restrictions on the issuance of new residency registrations by expanding eligibility criteria for registration in Tashkent and;</p> <p>(ii) simplified and digitized residency registration procedures.</p>	<p>A decrease in the annual number of people fined by the Government for violations of place of registration rules.</p>	<p>317,088 people (2019)</p>	<p>Less than 25,000 people (end-2021)</p>
	<p>#8 To reduce barriers limiting the full economic participation and safety of women, the Borrower has issued regulations to further implement legislation:</p> <p>(i) guaranteeing non-discrimination on the basis of sex for employment, electoral candidacy, and for access to state resources; and</p> <p>(ii) for the issuance, enforcement, and monitoring of protection orders for survivors of gender-based violence.</p>	<p>The establishment of referral pathways for survivors of gender-based violence.</p>	<p>No legal basis for complaints or referral pathways for survivors of gender-based violence. (June 2019)</p>	<p>Referral pathway for gender-based violence survivors, compliant with WHO standards, has been adopted and disseminated. (end-2021)</p>
	<p>#9 To increase support for vulnerable households during the COVID-19 crisis and to further strengthen the efficiency and transparency of the social safety net system and its responsiveness in targeting people affected by future sources of vulnerability, including climate vulnerable groups, the Borrower has:</p> <p>(i) increased by 10 percent the number of</p>	<p>A decreasing share of low-income allowance applications with income below the eligibility threshold</p>	<p>48% covering only the Sirdaryo Viloyati pilot region) (August 2020)</p>	<p>Less than 30% nationwide (end-2021)</p>

	<p>beneficiaries receiving low-income family allowances and waived re-registration requirements for existing low income family allowance recipients, in response to the COVID-19 crisis; and</p> <p>(ii) approved the transition of all regions in the country to using the Single Registry of Social Protection to process applicant registration, beneficiary selection, program enrollment and payment orders.</p>	<p>that are rejected because of lack of registration with the Employment Service Center.</p>		
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Performance indicators (operation and effect indicators) are same and shared with the WB, co-financer of this Program.

¹ This has the functions of a House of Representatives in Uzbekistan.

² This is equivalent to a local branch of the House of Representatives in Uzbekistan.