

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)

Project name: Development Policy Support Program

L/A signature date: April 16, 2021

2. Project Background and Necessity

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

In the “Uzbekistan's Development Strategy for 2017-2021” set forth by President Mirziyoyev (inaugurated 2016), the Republic of Uzbekistan is actively promoting political and economic reforms. With regard to the electric power sector, given increased demand for electric power accompanying economic growth, the policy outlines improvement of access to electric power through modernization of existing power stations and establishment of new power stations, promoting reforms through dissolution of SJSC Uzbekenergo and privatization of some power stations, etc. while receiving assistance from multiple donor organizations.

Under such circumstances, the Ministry of Energy (MOE) established in 2019 plays the role of promoting policy issues such as setting tariff, etc. while supervising businesses and leading coordination between donors. However, in fact each electric power-related public corporation carries out direct coordination with donors. So unified measures are not being taken sector-wide, and the MOE needs to enhance its governance. MOE is also responsible for improving the generating efficiency of thermal power stations using natural gas, which is Uzbekistan's base load power source, as well as promoting policies for energy conservation/renewable energy (hereinafter “energy conservation”). However, it is not necessarily performing adequate maintenance of accurate statistical data, basis for energy consumption policy. And from the perspective of limiting greenhouse gas emissions, there is a need to enhance the structure for collection of statistical data that leads to drafting and promotion of energy conservation policy.

As part of the reform of the electric power sector, JSC Thermal Power Plants (TPP) that were spun off from SJSC Uzbekenergo in 2019 have been obligated to prepare IFRS-based financial reports with the aim of ascertaining matters objectively with regard to the assets and cash flow of each power station, etc. when calling out for

Public Private Partnership (PPP) investment and setting power tariff. However, most of the power stations have not fulfilled obligation, and there are challenges in terms of assigning personnel to manage financial accounting and making structural enhancement by means of capacity development.

Furthermore, in relation to the operation & maintenance of thermal power stations, thanks to technical cooperation from JICA, training materials and fostering of lecturers has advanced at the Navoi Combined Cycle Gas Turbine Training Center (Navoi CCGT Training Center). Going forward, further enhancement is desired for the Center's management structure by actively providing opportunities for training, etc. to other power stations.

Due to the worldwide spread of the coronavirus pandemic that began at the end of 2019, Uzbekistan has recorded 78,272 infections and 620 deaths (as of January 24, 2021). The government preventive measures such as lockdown etc. have led to a slump in the domestic economy as well as a drastic reduction of foreign trade, with the GDP growth rate in 2020 dropping from an initial forecast of 5.9% to 0.6%. Also, deficit of the current account is increasing from an initial forecast of 5.6% compared with GDP to 8.5% (International Monetary Fund (IMF)), and the budget deficit is expected to increase from 3.9% compared with GDP in 2019 to 4.4% in 2020 due to reduced tax yields and increased expenditure on coronavirus countermeasures, etc.

In response, the Uzbekistan Government is taking measures such as reducing the policy interest rate, establishing a coronavirus crisis response fund and continuous support for corporate activities, etc., but the fiscal gap in 2021 is forecast to reach USD 2,200 million to be covered by fund raising by the government (USD 1,200 million) and external debt (USD 1,000 million).

Based on such circumstances, this project through financial assistance for Uzbekistan aims to promote a series of reforms in the electric power sector by engaging in policy actions to deal with the above-mentioned challenges though which promoting social and economic recovery and stability and development efforts in Uzbekistan coping with the coronavirus crisis.

## (2) Japan and JICA's Cooperation Policy and Operations for Electric Power Sector in Uzbekistan

In Country Assistance Policy for Republic of Uzbekistan (March 2017), "Update and maintenance of economic infrastructure (transportation/energy)" is set forth as an emphasized area, and likewise in the JICA Country Analysis Paper on Uzbekistan (updated December 2014) "Maintenance of economic infrastructure (in particular

transportation/power infrastructure)” is analyzed as an emphasized area, and this project complies with these policies and analyses.

### (3) Other Donors’ Activity

In December 2017 the Asian Development Bank (ADB) approved the Power Generation Efficiency Improvement Project (USD 627 million) aimed at facility reinforcement of Talimarjan Thermal Power Plant, in June 2018 approved the Economic Management Improvement Facility (USD 300 million), and in September 2020 approved the Power Sector Reform Program (USD 200 million), implementing state-run business reforms including improvement of the financial state including power tariff revision, etc.

In November 2016 the World Bank approved the Modernization and Upgrade of Transmission Substations Project (USD 150 million), supporting the maintenance of regional power transmission network, etc., followed by approval in June 2018 of Development Policy Financing Operation (DPO I, USD 500 million), in June 2019 of DPO II (USD 500 million), in April 2020 of an additional loan for DPO II (USD 200 million), and in December 2020 approved DPO III (USD 500 million), promoting state-run business reforms including the electric power sector.

## 3. Project Description

(1) Program Objective: This program aims to enhance governance and energy efficiency of the electric power sector and strengthen management and operation & maintenance systems in the power generation field in the Republic of Uzbekistan through providing financial support, thus contributing to Uzbekistan’s economic stability and development effort.

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

(3) Program Components: Financial support for the Uzbekistan Government to carry out the following initiatives in the electric power sector. The policy matrix is as shown in the attachment.

- 1) Enhance Governance and Energy Efficiency of Electric Power Sector: Enhancing project administration structure and donor coordination capacity for the electric power sector within the Ministry of Energy, and establishing a statistical data collection structure in relation to energy conservation
- 2) Strengthen Management and Operation & Maintenance System in the Power Generation Field: Enhancing IFRS-based financial structure in the power generation field and enhancing structure of Gas Combined Cycle Training Center at Navoi Power Station

- (4) Estimate Program Cost: Loan amount USD195 million
- (5) Project Implementation Period: Financial support for this program is set to start in January 2021 (as this loan is incorporated into Uzbekistan's fiscal year budget for FY2021). The achievement of policy actions is scheduled in February 2021, the program will be completed when the disbursement of the loan is completed (scheduled for April 2021). and the program will be completed with the end of the loan (scheduled for April 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: Implementing updates to high-efficiency power generation facilities with ODA yen loans in the electric power sector (total of 7 items amounting to approx. 314 billion yen), and assistance centered on fostering personnel connected to operation & maintenance of power generation facilities with technical cooperation. This program will contribute to promotion of outcomes of these assistance to date through the policy actions.
  - 2) Other Donors' Assistance Activities: Aiming to share information regarding the state of progress of a series of reforms with the World Bank and ADB, which are supporting promotion of SOE reforms in the electric power sector.
- (8) Environmental and social considerations, cross-cutting issues, and gender classification
  - 1) Environmental and social considerations
    - (i) Category: C
    - (ii) Reason for Category: This program was judged to have minimum undesirable impacts on the environment, based on the Japan International Cooperation Agency Environmental and Social Consideration Guidelines (announced in 2010).
  - 2) Cross-Cutting Issues: None
  - 3) Gender classification: GI (Gender mainstreaming needs assessment and analysis project)

Action/ reason for classification: Although gender mainstreaming needs were examined and confirmed in this program, it was not adequate for implementing specific initiatives contributing to gender equality or female empowerment.

(9) Other Important Issue: None

#### 4. Targeted Outcomes

- (1) Quantitative Effects: As shown in the attachment.
- (2) Qualitative Effects: Promotion of economic reform through Uzbekistan's economic and social stability, stable economic growth, and enhanced governance
- (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 Controls

- (1) Prerequisites: None
- (2) External Factors: There is no financial deterioration of Uzbekistan Government by further expansion of COVID-19 infection.

#### 6. Lessons Learned from Past Programs

In the ex-post evaluation results, etc. regarding the "Energy Sector Reform Program (II)" (evaluation year 2017) ODA yen loan for Pakistan, it was pointed out that JICA was able to achieve effective policy improvement and reforms by providing development policy loans together with technical cooperation to provide tangible assistance for the policy actions presented in the policy matrix.

In relation to this project, implementation of technical cooperation projects such as "Financial and Management Strengthening Project for Power Generation Sector" are being considered with the aim of enhancing monitoring capacity of the Ministry of Energy and financial accounting structure for power stations, etc., and the aim is to promote tangible policy actions and express project outcomes through cooperation with such projects.

#### 7. Evaluation Results

This program supports finances that have been affected by COVID-19, providing assistance for economic reform by promoting reform of the electric power sector. The program complies with Uzbekistan's development challenges and the cooperation policy/analysis of Japan and JICA, contributing to achievement of SDG Goals 7 "Energy", 8 "Decent Work and Economic Growth" and 9 "Resilient Infrastructure,

Sustainable Industrialization and Innovation”, which are significant in supporting the implementation of this program.

#### 8. Plan for Future Evaluation

(1) Indicators to be Used in Future Evaluation:

As indicated in Section 4.

(2) Timing:

Ex-post evaluation: 2 years after program completion

End

## “Development Policy Support Program” for Uzbekistan Policy Matrix

Reform Area	Prior Actions	Indicators	Baseline (January 2021)	Target (December 2022)
<b>Component 1: Enhance Governance and Energy Efficiency of Electric Power Sector</b>				
Reform Area 1: To strengthen project monitoring structure and donor coordination mechanisms for the electric power sector within the Ministry of Energy (MoE)	- Ministerial ordinance issued to obligate the establishment of a monitoring team headed by the Deputy Minister (overseeing sovereign and non-sovereign projects)	Holding a donor meeting (multi- and bilateral donor including JICA) led by Ministry of Energy	No donor meeting is held.	Donor meeting is held every quarter.
		Sharing the results of the donor meeting on the website	The results of the donor meeting are not shared.	Results of all donor meetings are shared on the website.
Reform Area 2: To establish statistical data collection structure for energy conservation	- Ministerial ordinance issued to set up a special team to prepare a roadmap for establishing a statistical data collection structure - Written appeal issued relating to dispatch of energy conservation advisor	Approval of roadmap for statistical data collection structure in relation to energy conservation	No structure is established.	Approval of roadmap for establishment of structure
		Preparation of draft masterplan (MP) on promotion of energy conservation	No MP draft is prepared.	Preparation and approval of draft MP
<b>Component 2: Strengthen Financial Management and Operation &amp; Maintenance System in the Power Generation Field</b>				
Reform Area 3: To strengthen financial report management structure in power generation field	Decision of Supervision Board of JSC Thermal Power Plants (TPP) regarding preparation of roadmap for completion of IFRS-based financial report for Navoi Thermal Power Station	Preparation of IFRS-based financial statement for Navoi Thermal Power Station	No IFRS-based financial statement is prepared.	Navoi Thermal Power Station prepares IFRS-based financial statements for fiscal years 2019, 2020 and 2021
		Implementation structure for work flow and necessary staff assignment, etc. relating to preparation of financial statement is approved.	No implementation structure is established.	Preparation of work flow and approval of necessary staff assignment
		Approval of roadmap for financial statement-preparing staff capacity development	No roadmap is prepared for staff capacity development corresponding to preparation of financial statements.	Approval of roadmap

Reform Area 4: To strengthen the structure of Navoi CCGT Training Center	Decision of Supervising Board of TPP regarding preparation of roadmap for enhancement of management of Navoi CCGT Training Center	Approval of roadmap for strengthening of implementation structure	Roadmap for strengthening of implementation structure is not approved	(Roadmap is approved.)
		Frequency of training held at Navoi CCGT Training Center	11 times/year	15 times/year