

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2001-2003)**

**UZBEKISTAN**

**December 2000**

## CURRENCY EQUIVALENTS

(as of 30 November 2000)

Currency Unit	—	Sum
SUM1.00	=	\$0.003162
\$1.00	=	SUM316.25

## ABBREVIATIONS

ADB	-	Asian Development Bank
CAAP	-	Central Asian Assistance Plan
CAR	-	Central Asian Republic
COS	-	Country Operational Strategy
EBRD	-	European Bank for Reconstruction and Development
ESW	-	Economic and Sector Work
EU-TACIS	-	European Union-Technical Assistance to Commonwealth of Independent States
GDP	-	Gross Domestic Product
HDI	-	Human Development Index
IBRD	-	International Bank for Reconstruction and Development
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
IPF	-	Indicative Planning Figure
JBIC	-	Japan Bank for International Cooperation
KfW	-	Kreditanstalt für Wiederaufbau
NGO	-	Nongovernment Organization
NPPT	-	National Program for the Personnel Training System
OCR	-	Ordinary Capital Resources
OPEC	-	Organization of Petroleum Exporting Countries
PSG	-	Private Sector Group
RETA	-	regional technical assistance
SME	-	Small and Medium-size Enterprise
TA	-	technical assistance
UN	-	United Nations
UNDP	-	United Nations Development Programme
URM	-	Uzbekistan Resident Mission
USAID	-	United States Agency for International Development
US EXIM	-	Export-Import Bank of the United States

## NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for [Uzbekistan](#) covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of [Uzbekistan](#) and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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**COUNTRY ASSISTANCE PLAN (2001-2003)  
UZBEKISTAN**

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## UZBEKISTAN

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. While Uzbekistan's gross domestic product (GDP) fell by about 20 percent during 1991-1995, the economic contraction was not as severe as that in the other Central Asian republics of the former Soviet Union. Uzbekistan resumed moderate positive growth since 1996. Despite the difficult macroeconomic environment and the repercussions of the Russian and Asian economic crises, real GDP grew by 4.4 percent in 1999. Growth was spurred mainly by agriculture and industry. Agricultural output increased by 5.9 percent in 1999. The agriculture sector did not experience inclement weather as it did during 1996 – 1998, and witnessed an across-the-board increase in output that included cotton, the most important export crop.

2. Industrial production increased by 6.1 percent, and construction services by 3.9 percent, boosting overall economic growth. Growth of the service sector also contributed to GDP growth, despite the Government's policy of restricting imports of consumer goods that in turn constrained private trading. Nevertheless, by opening the service sector to private initiatives, this sector and non-government employment grew rapidly. Military expenditures grew at 5.4 percent in 1999 compared to 6.4 percent in 1998. The tight budgetary situation and the increased allocation of scarce budgetary resources for social expenditures resulted in the ratio of military expenditures to GDP contracting from 5.3 percent in 1998 to 4.1 percent in 1999. Official statistics indicate that the overall macroeconomic situation remained on an even keel with financial stability in the first half of 2000. Real GDP increased by 3.8 percent compared with the first half of 1999. The growth of GDP is attributed to an increase in industrial production by 6.2 percent in the first half of 2000 compared to the same period of the previous year.

3. Despite the tight monetary and fiscal policies maintained by the Government, average monthly inflation was 1.9 percent in 1999, about 26 percent annually, as in the previous year. Average monthly inflation in the first half of 2000 was 1.5 percent. The national currency, sum, depreciated by about 27.3 percent during 1999.

4. The balance of payments remained under pressure in 1999. The Russian crisis, a bad cotton harvest in 1998, and falling world commodity prices contributed to an increase in the current account deficit from 0.6 percent of GDP in 1998 to 1.3 percent in 1999. The Government responded by further restricting imports, tightening access to foreign exchange, and increasing foreign borrowing to finance public investments.

5. Despite the deterioration in the current account deficit, official foreign exchange reserves increased by \$115 million because surplus in the capital account resulted from the presale of gold to a foreign commercial bank and drawdowns on previously contracted debt during the year. By the end of 1999, these reserves were \$1.28 billion (5.9 months of import equivalent). The increasing external debt, as a percent of GDP from 24.8 percent in 1998 to 28.1 percent in 1999, is a cause for concern. Detailed economic performance indicators are shown in Appendix 1.

6. Uzbekistan continues to make progress in transforming itself into a market economy, although recent external shocks have placed additional pressure on the economy. The institutional framework and basic laws and regulations required for a market economy are being put in place; prices of consumer goods have been liberalized; privatization of small enterprises

and housing is virtually complete; and privatization of medium- and large-scale enterprises through privatization investment funds and the post-privatization support program have been initiated. With regard to public finances, the Government has taken steps to improve revenue collection and rationalize expenditures. On the revenue side, it introduced value-added tax, imposed new land and excise taxes, and increased the existing excise taxes and duties. Public expenditure management has improved, with the adoption of a strict cash management system, cuts in administrative expenses, removal of direct subsidies on food and public transportation, and reduction in subsidies on housing maintenance and utilities. To minimize the social cost of the transition to a market economy, the Government considers the provision of social services and protection for vulnerable groups as integral components of the reform process. Thus, expenditures have been maintained for education and health, and the social assistance program to the needy has been improved. The impact of price increases on vulnerable groups has been offset by adjustments to the minimum wage.

7. In accordance with the national development strategy with a phased approach, the Government intends to move to the second stage in the reform program. As announced by the Government, liberalization of the foreign trade and exchange regimes, including unification of the foreign exchange rates and adoption of the current account convertibility, is expected to be introduced during 2000 - 2001, as well as deepening structural reforms in agriculture, finance, and state-owned enterprise sectors. Effective 1 May 2000, as a first step, the Government announced the unification of two exchange rates (the official and the commercial rates). Effective 1 July 2000, currency exchange offices were opened (the free market rate 1 \$=sum 675, compared to the official exchange rate 1\$=sum 269). Access to foreign exchange for importers of selected consumer goods and for citizens at large for the foreign travel was further liberalized. The Government issued a resolution, allowing all licensed banks to buy hard currency at the free market rate, while the four state-owned banks are allowed to sell hard currency to individuals in certain conditions and regulations. Further steps and concrete actions by the Government toward liberalization of the foreign trade and exchange regimes to create a truly market determined exchange rate, including reforms on the foreign currency surrender system, import licensing and registration, and the state procurement system, need to be closely monitored.

8. If the planned reforms take place, the temporary adverse macroeconomic consequences will likely slow GDP growth and result in significant costs of adjustment in the short term. However, once the relative price and structural adjustments are completed, real GDP is likely to grow steadily until the economy attains its full growth potential. In the medium- and long-term, it should be possible for the country's economic development to improve the investment climate and greater market efficiency, and to fully unlock the growth potential of the economy and bring about an improvement in the standard of living.

9. Therefore, the key short- and medium-term issues for the Government include (i) continuing reforms in the agriculture, finance, and corporate sectors; (ii) adopting policies to stimulate non-inflationary economic growth; and (iii) providing a social safety net program to offset the anticipated social costs of reforms.

10. The Uzbekistan economy is not sufficiently diversified and is still over-dependent on a few commodity exports. In the long run, further diversification and improved competitiveness of the economy will be the key to maintaining robust growth.

11. The recent security incidents have distracted the Government's attention temporarily from the economic reform program. This however, will change as the security situation is expected to be improved.

## **B. Poverty Assessment**

12. Prior to independence, Uzbekistan was one of the poorest republics of the former Soviet Union. During 1991-1995, per capita income decreased by 20 percent relative to pre-independence levels and then, has recovered modestly. There was a marked increase in income differentials among regions, between rural and urban areas, and among different social groups. The Gini coefficient increased sharply from 0.26 in 1991 to 0.32 in 1996 and 0.43 in 1998. People and households in poverty are mainly rural based, do not have alternative income opportunities through own farms or other activities, are often headed by women with children, and live in families with many children. The incidence and extent of poverty have become a major challenge to the Government.

13. There is no official or accepted poverty line in Uzbekistan that is comparable with international standards such as that of \$1 per capita per day expenditure. Utilizing data from the Ministry of Macroeconomics and Statistics in May 1999, families in need of social assistance were defined as having an average per capita income at or below 1.5 times the official minimum monthly wage of sum 1,320 (approximately \$17 a month at the official exchange rate). Using this criterion, the proportion of people in need of assistance was 14 percent in 1999 (about 11 percent of all households, or 0.5 million families). The State Department of Statistics will finalize a new household budget survey in late 2000. Preliminary analysis of a detailed survey carried out in three district areas of Uzbekistan (Ferghana, Karakalpakstan, and Tashkent City) in 1995, 1998, and mid 2000 shows no reduction in poverty.

14. Economic recovery since 1996 has contributed to employment growth, mainly in the private sector. Nevertheless, unemployment continues to be higher than the official figure indicates. While the official unemployment (Ministry of Macroeconomics and Statistics 1999 data published in 2000) was as low as 0.5 percent, the data masks considerable hidden unemployment and underemployment in state-owned enterprises and in the rural areas because enterprises and collective farms often retain surplus employees to avoid massive layoffs. Labor participation rate is lower in the poorer regions of the country and lower in rural areas than in urban areas.

15. Uzbekistan has a reasonably well-managed social safety net, which consists of various benefits, transfers and allowances, including some indirect subsidies, and allowances paid to families, vulnerable groups (e.g., single mothers, children under two years old, and pensioners), and low income families. The latter are managed by local committees (*mahallahs*), which target payments on the basis of central guidelines as well as local knowledge and discretion. Continuing fiscal pressures will require further adjustments to reduce the cost of the social safety net by improving efficiency and targeting.

16. The Government has attached high priority to addressing broad-based poverty issues. Programs and policies were introduced to maintain access to and the quality of social services, to better target social protection, and to general income opportunities. Substantial reforms were introduced in 1994 in the health, pensions, housing, and consumer subsidies systems, and in 1997 in social protection. In the Government's poverty reduction and prevention program, special efforts have been made to (i) create a favorable environment for employment generation opportunities, particularly in SMEs, and in rural areas where about 60 percent of the population

lives and where poverty is greater; (ii) improve targeting of social benefits; and (iii) develop social sector programs in health, education, and water supply and sanitation to improve service provision, efficiency and cost effectiveness for the poor.

## **C. Assessment of Socio-Environmental Performance**

### **1. Gender Issues**

17. As in most former Soviet Union states, women in Uzbekistan are well-educated and well-represented in most occupations and have equal access to education and employment opportunities. However, there is some anecdotal evidence that independence has brought a renewed interest in religion and the traditional relations between men and women that have had some confining effect on women. After independence, the Constitution confirmed, and the legal framework secured, equal rights and access to economic, social, and political activities between men and women. The general approach of the Government is to promote gender equity by encouraging women to play an active role in all spheres of life. The Government has carried out its gender policy through a number of programs and decrees. A Presidential decree on Enhancing Women's Role in Social and Government Development of Uzbekistan was introduced in 1993 as was the position of Deputy Prime Minister on Women's Issues. The Government has declared 1999 as a Year of Women, adopting the National Policy on Enhancing the Status of Women in Economic, Social, Political and Moral Spheres.

18. The participation of girls in the education system is high and, except in higher education, the system does not show any major gender bias. While maternal and infant mortality rates remain relatively high, the trend since independence has been improving substantially. The birth rate has fallen, and the mortality rate has improved. Nevertheless, there are significant inter-regional disparities in women's welfare between the richer and poor regions, as well as between the urban and the rural areas. For example, while infant mortality in 1991 – 1998 improved for the nation as a whole, it still remains high in the poor regions of Karakalpakstan and Surkhandarya. In some regions, such as those near the Aral Sea, deterioration in the ecological situation over the last two decades has had an impact on women's health.

19. The payment for labor does not discriminate against gender and age. Rather, it is determined in accordance with the occupied position. Traditionally women are employed in the social and service sectors such as education and health sectors where salaries are comparatively low. Gender-positive development is mostly visible in large cities. In the urban areas, especially Tashkent, the services and financial sectors offer employment opportunities to women as well as to men. Maternity leave and special allowances are provided for female employees. However, the restructuring and privatization of state enterprises has caused weakening of the social benefits provided to employees, including women. About half of the workers officially registered in 1999 as unemployed were women.

### **2. Human Development**

20. In terms of human development indicators, Uzbekistan compares favorably with other countries at similar levels of per capita income. During the Soviet socialist regime, health and education coverage was expanded to virtually all the population. The Government continues to place a very high priority on human development and social protection. Uzbekistan has been in a position to substantially protect expenditures in the social sectors as it has not had to face the drastic decline in economic activity experienced by some of its neighbors. Human development indexes (HDIs) by the United Nations Development Programme (UNDP) demonstrate relatively

high achievements. Despite difficult economic and social situations, HDI ranking remained in the 100 to 104 range during 1994 – 1998. However, substantial challenges confront the Government with respect to improving human development through the provision of social services. There is a need to (i) maintain the quality and delivery of basic services in the face of resource constraints, and (ii) improve management and efficiency in resource utilization.

21. Uzbekistan's well-developed human skills base is a major asset for the future development of the country. Educational attainment is high. Basic education coverage is comprehensive, with a low level of disparity between rural and urban areas and between genders. By the labor code and corresponding legislation, child labor under 14 years of age is strictly prohibited. The new education law and the National Program for the Personnel Training System extends the duration of compulsory education from nine to 12 years. All the children are obliged to go to primary and senior secondary education schools. However, enrollment in other levels of education declined. Particularly preschool enrollment was most severely hit. The main cause is the rationalization and privatization of state enterprises, resulting in closures of the preschools that used to be attached to and supported by those enterprises. The higher education and technical and vocational subsectors also require substantial review, restructuring and reorientation. The Government recognizes that the transformation to a market-oriented economy requires new skills that are not widely available in the present work force. The social and economic transition accentuates the need for further reforms in education, particularly in its role as facilitator in the efficient provision of market-oriented skills.

22. While the health care system is comprehensive, with services being widely accessible and provided mainly free of charge, there are issues related to the low quality and inefficiency of the state system of health care. To enhance the efficient use of scarce resources and to improve cost effectiveness, the Government has initiated a reform program, which includes the reorganization of health financing, the improvement of the quality of services, a shift to primary care, and the targeting of vulnerable groups.

### **3. Environment**

23. Uzbekistan faces several environmental problems. Key environmental concerns relate to poor management of water resources (due largely to inherited Soviet era's agriculture practices) and the ecological disaster of the Aral Sea Basin. The extensive irrigation coverage, together with the deteriorating drainage system, and an excessive use of pesticides and chemical fertilizers in agriculture have resulted in severe soil damage. In addition, industrial and communal discharges have polluted surface and underground water resources in a number of industrial areas where inefficient heavy industries are located.

24. The Aral Sea, shared with Kazakhstan and once the world's fourth largest inland body of water, has shrunk to less than half its former size since the 1960s because of the overuse of water from the two main rivers that feed the sea. The desiccation of the Aral Sea has resulted in desertification of the surrounding land, which has given rise to serious health problems and destroyed livelihoods in the region. With assistance from the World Bank, UNDP, and bilateral aid agencies, an extensive program was adopted to address the Aral Sea crisis. The Aral Sea Basin Program aims at stabilizing the environment of the Aral Sea Basin, rehabilitating the disaster zone around the sea, improving the management of the basin, and developing the capacity of the regional institutions. The Government has identified the environmental problems and prioritized a program of action in the context of a National Environmental Action Plan which is ready for implementation. Remedying the problems will require strict water conservation, supported by water pricing and farm restructuring, and sustainable investment in rehabilitation

of irrigation and drainage. The resolution of industrial pollution problems is linked to industrial restructuring and modernization, along with strengthening the framework for environmental regulation.

#### **4. Governance**

25. The structural reforms undertaken by the Government have addressed various facets of governance. The Government has taken initiatives to improve governance standards in the areas of accountability, predictability, participation, and transparency. To improve accountability, the Government has taken a number of important measures to enhance the efficiency of public sector management. In the area of public finance management, a new tax code was enacted in 1999, and the Government continues its efforts to improve tax administration and to rationalize public expenditures and subsidies. Effective 1 January 1999, the Government initiated civil service reform including staff downsizing by 25 percent, reflecting general budgetary affordability and reorientation and restructuring of ministries and agencies to make the civil service more merit-based and its operations more efficient and result-oriented. The Government also initiated a program to improve auditing standards and financial management in the Government and public and private entities. The Government's efforts to fight corruption and fraud, include the arrests of corrupt senior government officials and local governors and a nationwide anti-corruption campaign initiative. Further institutional and administrative reforms in the civil service would have to figure prominently in the attempt to make the system more accountable.

26. The Government has launched legal and judicial system reforms through its commitment to (i) create a strong mechanism of checks and balances including the independence of the judiciary, and (ii) reinforce the legal basis for reforms. Developing legal and regulatory frameworks are essential to enhance predictability and transparency of the system. The Government has taken measures to strengthen the legal and regulatory framework in some key sectors (e.g., financial sector, construction, private sector development, and foreign direct investment). The Government attaches great importance to developing legal information systems and enhancing information disclosures (e.g., financial disclosures in the banking system) to make a better access and wider dissemination of the information to the public.

27. To enhance participation in the development process, the Government is gradually moving away from the centralized allocation and control of resources. Some progress has been achieved in initiating enterprise reforms and privatization and corporatization of the state-owned enterprises, improving corporate governance and management, and in dismantling the state order systems for agricultural production for cotton and grain by replacement of the state procurement system. Trade and foreign exchange regime-related reforms are crucial to ensure sustainable macroeconomic stabilization and to improve greater market efficiency and resources allocation. Basic social services (such as health, education, and communal services) are being gradually decentralized from central to local governments. The ongoing process of decentralization requires special attention calling for institutional strengthening at the local level. Bolder attempts at policy reforms and a more participatory system within the Government apparatus could further enhance the development process and strengthen civil society.

## **D. Implementation Assessment**

### **1. The Portfolio**

28. Uzbekistan became a member of the ADB in August 1995 and lending operations began in 1996. As of 30 June 2000, cumulative lending to Uzbekistan consisted of six loans for five projects for \$267 million and 28 technical assistance projects for a total of \$16.4 million. ADB's Uzbekistan portfolio is relatively young. No loans have been closed and post-evaluated. All ongoing loan projects are at the initial or middle stage of the project implementation cycle. Loans and technical assistance projects have helped to improve governance, build institutional capacity, support policy and institutional reforms, and rehabilitate basic social and physical infrastructure.

### **2. Issues in Project Implementation**

29. Uzbekistan's capacity to absorb ADB assistance has been considerably lower than initially anticipated. The limited implementation capacity, slow development of institutional capacity, and the Government's pace and intensity of reform agenda, have initially hampered effective and efficient implementation of loans and TA projects. Although there has been an overall improvement in the project implementation indicators such as loan signing and effectiveness, and establishment of project implementation structures, contract awards and disbursement performance, and compliance of loan covenants need to be carefully monitored.

30. The executing agencies lack familiarity and experience with the international financial and business practices in general and ADB policies and procedures in particular. Making a candid assessment of the executing agency's absorptive and implementation capacity, and taking appropriate measures to strengthen its capacity and minimize implementation risks will continue to be critical. Therefore, all loan projects are accompanied by substantial capacity-building TAs and components to address policy and sector reforms, strengthen institutional and staff capabilities, develop legal and regulatory frameworks, and establish and maintain project performance management and monitoring systems.

31. Projects with the Government's highest level of commitment and the executing agency's ownership are assured have performed better. On the contrary, in the sector/project where the Government is not yet ready to be fully committed to implementing policy and sector reform agenda, the project continues to encounter implementation difficulties. There is still a high degree of uncertainty associated with project processing and implementation mainly caused by prolonged policy dialogue to reach agreement with the Government on acceptable policy and sector reforms, generally in any sector, and particularly in the agriculture and road sectors.

32. To overcome these problems, intensified efforts are required by the Government as well as ADB to enhance the Government's implementation capacities and the ownership of projects. Several measures have been taken including: intensifying participation of stakeholders during project preparation; pilot-testing; and ensuring that implementation arrangements are concluded early in the project preparation cycle, in combination with intensive supervision by ADB and early identification of problems. Continued efforts will be required to (i) ensure high quality supervision by ADB staff; and (ii) train counterpart staff in the project implementation units through piggy-backed TAs, on-the-job training, ADB seminars and training programs, and RETAs. To ensure counterpart funds availability, particular attention will be required to (i)

strengthen the linkage between the medium-term public investment program and the budgetary allocations; and (ii) develop efficient project monitoring systems and procedures. The portfolio management specialist who has been assigned at the Uzbekistan Resident Mission in 2000 as part of implementation of the ADB's new Resident Mission Policy should contribute significantly to improving performance related to contractual matters by providing technical and professional inputs and advice for the executing agencies.

## **II. Country Operational Strategy**

### **A. The COS**

33. The COS was endorsed by the Board in March 2000. The central goal of the ADB's assistance program is the management of the transition to an economy that relies upon market based institutions providing for a sustainable reduction in poverty and increases in the standard of living. This strategy recognizes the Government's program of reforms as the essential element to the longer term ability to address the problems of poverty reduction and development. The strategy has two operational objectives. The first is the management of transition, including (i) support for basic reforms, and (ii) minimizing the social costs of transition. The second involves enhancing the potential for growth through (i) regional cooperation, (ii) investment in the rural sector, and (iii) direct support for the private sector. The COS maintains the relatively focused approach with respect to sectoral involvement following an assessment on the progress of the policy and sector reforms. The country's limited absorptive and implementation capacities, the pace and intensity of implementation reform programs, and the ADB's orientation of performance-based lending justify a moderate program, focusing on a relatively small number of sectors with phased and pilot-tested approaches.

### **B. Progress in Implementation**

34. The Country Assistance Plan for 2001-2003 is the first CAP which has been prepared under the new COS and translates the underlying thrusts of the new COS through lending and non-lending assistance modalities in the selective sectoral interventions. The Poverty Partnership Agreement is expected to be formalized in 2001. Progress in the policy and sector reforms and the portfolio performance needs to be assessed with monitorable and verifiable measures and indicators which are being developed in each sector.

### **C. Poverty Partnership Agreement**

35. The new COS forms the basis of further discussions with the Government during 2000-2001 leading to a high-level agreement on poverty reduction. While poverty reduction and prevention are a national priority and the main thrust of the Government's development strategy and the new COS, to formalize the Poverty Partnership Agreement, additional work is required to revalidate data and performance indicators. The results of the World Bank-financed living standard survey that are expected to be available by late 2000 could be an important basis to strengthen a poverty analysis that was undertaken in the COS.

## **III. Sector Strategies**

### **A. Agriculture and Rural Development**

36. The agricultural sector is a critical sector for growth, with further reforms required to improve agricultural productivity and efficient resource utilization. Agriculture is the backbone of

Uzbekistan's economy, accounting for 30 percent of GDP, 60 percent of foreign exchange earnings, and 44 percent of employment. In addition to supplying food, agriculture supports a large industrial base that includes food and non-food processing industries. By far the most important crop is cotton. Uzbekistan ranks as the world's fourth largest producer and cotton alone accounts for about 50 percent of export earnings.

37. The Government's agenda in the agriculture sector includes (i) promotion of cotton production and increase of export revenues, (ii) achievement of domestic self-sufficiency in the production of wheat, (iii) redistribution of revenues earned in agriculture to finance investments in other sectors, and (iv) improvement of rural standards of living and employment. Although the Government has followed a gradualist policy with regards to reforms in the agriculture sector, some progress has been made in recent years. A new land law and related legislation were enacted in July 1998 aimed at improving land use rights and giving greater security of tenure to individual farmers. In 1999, the Government (i) raised the state procurement prices of cotton and wheat (it was increased in 2000 as well), (ii) transferred to the Government budget the financial burdens of farms for maintaining social and community facilities, (iii) wrote off farm debts to the state and rescheduled those to input suppliers, and (iv) simplified the taxation system and provided a tax cut for farms, particularly to promote private farming. The Government recognizes the urgent need to tackle the issue of rural unemployment. Therefore, it attaches a very high priority to income and employment generation activities in the rural areas.

38. Further policy measures are required particularly in the areas of (i) modifying the state procurement system for cotton and wheat to provide farmers with incentives to increase cotton and wheat yields and increasing the incentive structure and extent of private participation; (ii) phasing out the existing monopolistic associations in domestic marketing, processing, and foreign trade of agricultural commodities to encourage competition and improving access to quality inputs and services; (iii) farm restructuring including corporatization; (iv) developing sustainable and viable rural financial institutions; and (v) improving water resources and land management. In parallel of these policy measures, the physical constraints, in particular, the continued deterioration of the irrigation and drainage systems which restricts increases in crop yields and farm income and threatens sustainable sector development should be addressed.

39. There are basically two approaches for ADB to provide assistance to agriculture and rural development: (i) development of projects, especially pilot projects to demonstrate the utility of the sectoral reform, and (ii) support for rural finance institutions that can potentially ease one of the key constraints on the sector's development. In each area, the extent to which support can be provided will depend crucially on the assessment of the reform program adopted by the Government.

40. The inherent difficulties in undertaking broad-based reforms and the limited capacity of the Government agencies in project design and implementation are major constraints. These factors suggest that ADB's investment in agriculture and rural development in the immediate future should focus on pilot projects that can demonstrate the efficacy of reforms as well as investments. Pilot projects can provide focus for policy dialogue, with concrete activities by which to test or validate policies relevant to the Uzbekistan situation. These pilot projects can (i) provide institutional support for the development of new institutions in the rural area, such as water users associations; (ii) promote rural employment through microfinance and SME development and other income generation activities; (iii) support rural financial system development; and (iv) attract selective investments in infrastructure, especially irrigation and drainage systems.

41. The pilot project approach offers opportunities for developing a poverty reduction focus of ADB operations. Given the structure of the rural economy, support for small-scale and private farming and rural non-farm activities potentially has strong income effects. Agriculture and rural development projects will respond to local needs, initiatives, and conditions. To reduce rural poverty, the promotion of small industries and credit-union-based rural financial systems will be pilot-tested and supported. Activities that will directly support private sector enterprises will be particularly important in demonstrating the potential of market-based activity.

## **B. Infrastructure**

### **1. Energy**

42. Energy resources – oil, natural gas, coal, and hydroelectricity – are abundant in Uzbekistan. The country has significant reserves of natural gas sufficient for both domestic and export markets. Neighboring countries are similarly rich in oil and hydroelectric power reserves. Substantial trade in energy is ongoing in the region and the complementary energy reserves offer the potential for encouraging regional growth and development if policy issues can be resolved and infrastructure investment undertaken. There is the limited infrastructure for transporting energy, including oil and gas pipelines and electric transmission lines, other than in the directions served during the Soviet era. The maintenance and investment plans should be viewed with regional supply and demand balances and costs and benefits apportioned through the system in an equitable, transparent, and administratively feasible manner.

43. ADB's regional cooperation initiative provides a model for possible ADB activities in the energy sector. Electricity and hydrocarbon projects should contribute to increasing the regional trade in energy, enhancing the commercial orientation of such trade to encourage wider private sector participation, and to resolving difficult policy issues. The cross-border electricity trade is a natural starting point for ADB assistance. The preliminary goals would be to identify further infrastructure needs and policy issues that impede increased trade. In the Phase II of the regional initiative in support of economic cooperation in Central Asia, ADB has initiated to examine especially the investment, maintenance, and operational needs of the regional electricity grid. Some projects may require considerable intraregional coordination where ADB's presence in brokering fair and equitable long-term supply and purchase agreements may make a difference. Similarly ADB's presence may bolster the financing capabilities of the poorer countries to enable them to participate in properly structured projects. In all activities, ADB will act to support the participation of the private sector. ADB's program of assistance in this sector could cover generation and transmission projects which address the national environmental issues as well as contribute to reliable and efficient power supplied to the regional grid. This approach is consistent with the Government's sector development and priorities in the energy sector. The Government supports the ADB's regional cooperation initiative.

### **2. Transport**

44. The future economic development of Uzbekistan hinges on the provision of an efficient and cost-effective transport system. This is particularly important in the context of the land-locked nature of Central Asian republics, especially Uzbekistan, which is one of only a few doubly-landlocked nations. Development of the transport sector, both railways and roads, with sound sector policy to enable market-based transport management and operations, is of paramount importance to facilitate sustainable economic development, providing more employment opportunities and generating additional incomes in poor areas thus contributing to

poverty reduction. Cooperation to develop and maintain regional infrastructure and a policy environment conducive to trade and commerce are also critical.

45. The Government's emphasis of the transport development strategy is on (i) developing a step-by-step approach to restructure institutions and reform sector policies to enable market-based transport management and operations; (ii) establishing an appropriate policy, legal, and regulatory framework for the sector; and (iii) providing adequate transport infrastructure and maintenance to support the transition to a market-based economy.

46. Some progress has been made in the railway sector, and to lesser extent, in the road sector in sector reforms and institutional restructuring. ADB's policy dialogue with the Government in the transport sector has centered on (i) improving the policy and regulatory framework; (ii) restructuring of the Government organizations and state-owned enterprises to enable separation of policy and implementation functions; (iii) promoting competition in the provision and operation of the transport facilities and services; (iv) improving funding and cost recovery including increased transparency and accountability of the off-budget funds, and removing subsidy-induced distortions in pricing of transport services; and (v) establishing sound operation and maintenance procedures.

47. ADB's future assistance will focus on further strengthening efforts and on establishing planning and management frameworks; training of staff, particularly in the areas of planning, accounting, project management; and rehabilitation and upgrading infrastructure. As integral part of the regional cooperation strategy, ADB's activity in transport rail and road projects will contribute to the development of transport corridors that facilitate economic growth in less developed and poor regions as well as regional cooperation and to an easing of barriers to trade and traffic. In view of the performance-based operations, lack of progress in carrying out the needed reforms and implementation would put ADB operations at considerable risks. Substantial progress of the portfolio performance, including clear evidence of satisfactory implementation performance and positive development in policy dialogue on sector reforms and compliance of policy-related loan covenants is required before processing the second or third project in the transportation sector.

### **3. Finance and Industry**

48. In the aftermath of the East Asian and Russian crises, the Government recognizes the need for thorough banking and financial sector reforms. Key reforms measures that have been initiated include (i) strengthening banking regulation and supervision, (ii) providing training for financial sector personnel to improve their managerial and technical capabilities, (iii) restructuring banks with poor loan portfolios, (iv) encouraging the growth of private banks, and (v) developing the other capital market institutions.

49. The key policy measures planned to be introduced to improve governance standards in the financial sector include: (i) setting a ceiling for the maximum permissible individual shareholding in any commercial bank, (ii) increasing the minimum authorized capital for commercial banks, (iii) banning cross ownership of bank shares, (iv) introducing a corporate governance system for banks to improve the transparency of financial disclosures and shareholders' roles, and (v) improving banks' external and internal audit systems to ensure compliance with central bank regulations. The Government is also considering the privatization of four state-owned banks.

50. The need to support basic reforms is particularly important in the financial sector where reforms are central to the ability of the country to progress in areas such as privatization, agriculture, and enterprise reform. The ADB's assistance in this sector will be integral part of a systematic reform program involving coordinated efforts with other international funding agencies, especially the World Bank and EBRD, with respect to policy reforms, and institutional restructuring, and investment.

51. There are considerable opportunities for SME development in view of the country's natural resource endowment, skilled/educated workforce, strategic geographic location, and satisfactory transport networks. Despite these potentials, the development of SMEs has been hampered by: (i) internal constraints within SMEs relating to management information, technology, and processing skills; (ii) overall legal policy and regulatory constraints; and (iii) lack of credit to support SMEs' acquisition of imported capital goods, materials, and technology.

52. The need to develop the SME sector has been recognized to increase industrial value added, promote exports by developing backward and forward linkages and generate additional employment opportunities. The envisaged SME loan will help finance the critical foreign exchange needs of viable SMEs. It will also open up opportunities for policy dialogue with the Government to improve the overall legal, regulatory, and policy framework in Uzbekistan to foster SME development.

## **C. Social Infrastructure and Environment**

### **1. Education**

53. The National Program for the Personnel Training System (NPPT) was adopted by the Government in August 1997 with the aim of establishing a national educational system of international standards meeting the requirements of a modern market economy and a democratic society. The NPPT sanctions key features introduced in the education system since independence, including the extension of compulsory education from 9 to 12 years, the introduction of Latin-script Uzbek language materials in schools, and the authorization of private educational institutions. The reform agenda, as reflected in the NPPT and subsequent Government decrees, gives high priority to (i) strengthening the relationship between education, training and the labor market; (ii) updating the contents and processes of education at all levels; (iii) upgrading the skills of educational staff; (iv) introducing new educational technologies; and (v) promoting educational and scientific research.

54. Key challenges confronting the education sector include (i) enhancing quality and relevance of education to the emerging socio-economic context of the country and to international trends in education (e.g., curriculum relevance, modern pedagogy, up-to-date standards, major reorientation and training for teaching staff); (ii) enhancing program and curriculum flexibility, particularly at senior secondary and tertiary levels, to permit responsiveness to dynamic social and labor market demands; (iii) achieving the NPPT objectives cost-effectively, inter alia through enhanced efficiency of the system and re-examining resource allocation mechanisms, norms, and subsidy targeting; and (iv) strengthening sector planning and management capacities (developing outcome focused information systems, decentralizing education management and finance, and fostering public-private partnership).

55. In response to these challenges, ADB prioritizes support to compulsory education, enhancing (i) quality and relevance of education; and (ii) national capacities to design, manage

and monitor education reforms. As the lead agency in education and human development, and in line with the Government's strategy to implement new changes progressively from the lower grades, initial ADB support focused on basic education (grades 1-9), and now followed by support to senior secondary education (grades 10-12). Over the next years, ADB will continue enhancing policy dialogue with the Government and promoting more systemic, coordinated and participatory approaches to the reform process. Investment activities need to be linked with and grounded on effective policies and strategies to address the challenges faced by the sector, and effective use and integration of inputs from technical assistance program for the sector.

56. The Basic Education Textbook Development Project supports the introduction of the new generation of textbooks and learning materials, enhancement of curriculum development capacities, and reforms in the textbook publishing and printing industry. The Basic Education Staff Development Project will further contribute to educational quality improvement by expanding the teacher training capacity through distance education and introducing new teacher education programs. This Project will also address sectoral efficiency issues by improving the development of teaching and non teaching staff, reviewing staff service conditions, and modernizing the human resources management system.

57. The Senior Secondary Education Project assists the Government in pilot-testing, laying initial foundations for development of a new system of senior secondary education. Attention focuses on (i) linkages and relevance of the curriculum to students' learning needs, emerging employment and higher education opportunities; (ii) internal efficiency of individual school and the subsystem; and (iii) schools' linkages with the local industries, post-secondary education, and community. These are expected to (i) contribute to development of the outcome oriented monitoring and evaluation for the senior secondary subsector, and (ii) generate lessons and recommendations from the pilot schools to feed into future strategies and policies on the subsector development and the NPPT. The 12-year compulsory education and expansion of the senior secondary system involve considerable resource implications. ADB will support the Government in identifying strategies for maximizing investment returns and ensuring financial sustainability of the subsector. These activities are to be conducted in close coordination with other donor assistance (both grants and loans) to the subsector.

58. Anti-poverty focus will also be integrated into ADB's support to education. Early childhood development is an area that warrant support in the future, given its crucial roles in preparing and enhancing children's learning and social abilities. Effective early childhood development needs to encompass an intersectoral approach covering both cognitive and physical development of children. A comprehensive action plan involving well-structured aid agency coordination will be adopted following a more thorough needs analysis.

## **2. Urban Development**

59. While the incidence of poverty is more widespread in rural areas, there are also significant urban poverty issues. Since independence, investment has slowed and basic urban social infrastructure services such as water supply, sanitation, drainage, solid waste management, district heating and hot water supply have deteriorated. The operation and maintenance of aging assets have become increasingly difficult. Performance efficiency has dropped and the cost of service delivery has risen. As a result the urban population is receiving service of a lower standard that is affecting their living and health conditions. Arresting the decline in communal services and the deterioration of existing infrastructure systems and preserving living standards in the urban areas are a major challenge.

60. Across the urban sector, investment and policy reforms are needed to ensure adequate service provision in a fiscally sustainable fashion and provide an avenue to address the serious environmental problems including water resource pollution. The Government has adopted comprehensive programs for water supply and gas distribution in both urban and rural areas, especially focusing on installing metering systems for households.

61. ADB assistance in the urban sector will focus on addressing governance and decentralization issues, particularly in the provision of communal services and management. Urban governance encompasses institutional strengthening and capacity building, community participation, and involvement of the private sector. Ongoing policy changes in the delivery of municipal services could improve the transparency and accountability of local governments and participation of the poor in governance-related decision making.

62. In some areas and in some localities, the Government has been receiving international assistance. To avoid duplication of effort, ADB's assistance in this field will be carefully coordinated with other international funding agencies. ADB's first intervention in the urban social infrastructure sector will undertake a comprehensive sector analysis and in-depth feasibility study, and up-front capacity building and policy support activities of improving the capacity of the central and local governments in the delivery of urban social infrastructure services.

### **3. Environment**

63. ADB is supporting implementation of a National Environmental Action Plan. To address environmental issues, in close coordination with other donor agencies, ADB has provided technical assistance in environmental management, which aims to build the capacity of environmental institutions to undertake environmental impact assessment. The TA focused on (i) interagency coordination, (ii) training programs on environmental impact assessment, (iii) developing environmental laws and regulations, (iv) strengthening environmental management of mining and industrial activities, and (v) institutionalizing framework for environmental monitoring.

64. In addition, the ADB's Country Assistance Plan for 2001 –2003 addresses environmental issues with special focus on agriculture and urban social infrastructure development projects. Agriculture projects will include environmental issues and components such as reducing water pollution, improving land and water resources management (e.g., encouraging water conservation, and protecting soil resources). The urban social infrastructure development project will address reducing water pollution and promoting solid waste management.

#### **D. Governance Dimensions of ADB Operations**

65. ADB has provided considerable assistance for capacity building in a range of sectors, including agriculture, education, roads, railway, banking, environment, and project management and monitoring. Policy dialogue has been undertaken in the areas of improved pricing and financial management systems, phasing out the state procurement systems, restructuring and corporatizing transport operations and entities, enhancing cost recovery, and developing a sound legal and regulatory framework such as the Railway Law. In the Rural Enterprise Development Project, substantial technical assistance has been provided to establish and operationalize satisfactory subproject appraisal and credit approval procedures and implement systems for subproject benefit monitoring and evaluation to make the subproject selection and implementation more accountable and transparent. In the Basic Education Textbook Development Project, and the Senior Secondary Education Development Project, ADB is

assisting the Government in establishing a monitoring capacity for collecting and analyzing data to advise policy makers on the status of implementation of the Government's education sector reform program and improving the system of education financial management and efficiency and relevance of the education system. In the Railway Rehabilitation Project and the Road Rehabilitation Project, substantial assistance is provided to improve the financial management of the transport entities including cost recovery, improve operation and maintenance capacity, introduce competitive bidding procedures, and corporatize the entities.

66. Under TAs in the banking sectors, ADB is strengthening the capacity of commercial banks for investment project identification and appraisal. The aim is to enhance the efficiency of intermediation in the delivery function of the banking system and improve allocation and mobilization of domestic savings for investment projects. Other TAs are designed to support pension system reform to modernize the administrative and financial management processes and to support the development of the insurance industry by strengthening the legal and regulatory framework and upgrading the institutional supervision and regulatory capabilities. To enhance public finance management, and particularly, improve accountability of utilizing external assistance and public investment programming, technical assistance has been provided to improve planning, coordinating, monitoring and utilizing external assistance and establishing a public investment programming process for preparing the annual three-year rolling public investment program. This TA also provided some initial assistance in establishing proper procurement and contracting procedures. ADB has provided in-country workshops on anticorruption, procurement and disbursement procedures to familiarize Government officials with best practices in transparent and efficient project implementation. To facilitate widespread dissemination, the ADB's new policy on anticorruption, and guidelines on procurement and consultant selection have been translated into Russian. Some RETAs are contributing to audit training and corporate financial management.

67. Building on the substantial efforts and assistance provided by ADB in the past, the ADB program for 2001 – 2003 will continue to assist in (i) reducing distortions and supporting basic reforms in the financial sector; (ii) supporting state procurement system reforms, sector restructuring, and improving land and water resources management in the agriculture sector; (iii) addressing governance issues of promoting decentralization, improving urban planning and management, and supporting tariff reforms and community participation in the urban social infrastructure sector; and (iv) further improving efficiency, relevance, and financial management at the local and community level in the education sector.

## **E. Gender Dimensions of ADB Operations**

68. A study on gender and development strategy for Uzbekistan was undertaken in the economic and sector work associated with the preparation of the new COS. The study identified main issues in the context of women and education, health care, social protection, and social, economic, and political life and the Government's strategy on gender and development.

69. The Basic Education Textbook Development Project is promoting equitable gender portrayals in textbooks through content analysis and training for authors, thus enhancing the image of women and encouraging women, especially in rural areas, to realize their full potential. Substantial capacity-building support has been provided by technical assistance in the areas of agro-processing, and small and medium enterprise from which women can benefit to gain necessary skills and training to facilitate their adjustments to the market-oriented economy. In the Basic Education Staff Development Project, ADB is addressing the issue on employment conditions, declining motivation and low morale of teachers, growing number of teachers leaving

the profession, perceived inadequate remuneration package, incentives, salary and career structure, combined with low female representation in the administration. These are all important issues in themselves and particularly so for women as 80 percent of teachers in the basic and secondary education are women. ADB is assisting the Government in exploring ways in improving employment conditions of teachers and their opportunities for career development in a financially sustainable manner, upgrading teacher education and training, improving teacher utilization, and redeploying education staff in a more equitable and cost-effective manner.

70. Gender issues are also required to be addressed in the context of early childhood development and the project design of the urban social infrastructure sector, which is a new sector for ADB to be involved. Under RETA No. 5835: Enhancing Gender and Development Capacity in DMCs, a gender specialist consultant is posted in the Uzbekistan Resident Mission to help build the gender and development capacity in Uzbekistan and achieve quality improvements in the implementation of ADB-financed projects addressing gender concerns, and operationalize the ADB's overarching objective of poverty reduction in the project-specific context by (i) undertaking a substantive social analysis with focus on gender and poverty impact assessment, and (ii) collecting and analyzing gender disaggregated data and developing a gender and development data base.

## **F. Private Sector Development**

71. ADB's public sector operations are designed, where appropriate, to support improvement of incentives for private investment by enhancing the policy, legislative, regulatory, and institutional framework. ADB prepared a Private Sector Strategy for Central Asia in March 1998. The strategy proposes that ADB responds to the region's needs by (i) focusing on private sector operations that would be directly complementary to public sector programs; (ii) developing programs in those sectors that can have a direct impact on reducing the costs of transition, particularly in the social sectors; and (iii) seeking the maximum involvement of other investors or participants. The strategy recognizes that, given the existing programs of ADB and other funding agencies, there are likely opportunities for ADB to provide direct assistance to the private sector in (i) the financial sector, especially to encourage good corporate governance; (ii) infrastructure, especially in rehabilitation and operation projects; (iii) the company towns enterprise assistance; and (iv) social infrastructure, to help create private sector service providers.

72. The Private Sector Group (PSG) staff participated in the country programming and the COS missions in 1998 and 1999 and explained PSG assistance modalities and identified possible areas of assistance. Consistent with the Private Sector Strategy for Central Asia and the ADB's new Private Sector Strategy policy, the Government has made a request for expanding the scope of ADB assistance in certain specific sectors related to private sector development. In the new COS, private sector development is a key operational thrust. Especially with respect to small and medium enterprise (SME) support, ADB will continue to explore viable channels for providing financial assistance to SMEs through financial intermediaries and through capacity-building exercises directed at both the private sector and relevant public institutions. Investments could be made in non-bank financial enterprises such as leasing companies to address the funding needs of SMEs. Other forms of assistance such as providing business-oriented technical assistance, business planning, accounting, enterprise restructuring, post-privatization rehabilitation, and the development of entrepreneurs will be considered in cooperation with other international funding agencies.

73. The Government has initiated the privatization and its post-privatization support program. In addition, the National Investment Program has identified its strategies and sector focus (such as export oriented and import substitution industries; agro-based industry, tourism, mining, high-tech industries, construction, and telecommunications), and developed a legal and regulatory framework on foreign direct investment and national investment. The slow foreign direct investment into Uzbekistan largely reflects the overvalued currency and imminent fears of an impending devaluation, the highly restrictive exchange control practices, and attempts by the Government to micro-manage and regulate investment policies. ADB supports the Government's initiative to privatize over 270 manufacturers and banks, including some of the largest state enterprises and encourages the Government to inform potential investors and sponsors of ADB modalities available to support private sector investments. Some proposals such as Uzbekleasing have been submitted to PSG for review.

74. The Government has requested PSG's participation in the privatization of one of the banks and the telecommunication utility. These are currently being prepared for sale through the World Bank assistance. However, PSG would not consider any investment in Uzbekistan until the current account convertibility and the unification of the exchange rates issues have been resolved, and the country has recovered from the resulting fallout. This development will be particularly important when the Government considers the privatization of the larger utilities. Subject to the current account convertibility and the unification of the exchange rates, ADB could have a worthwhile private sector pipeline in Uzbekistan.

#### **IV. Regional Cooperation**

75. Regional stability is an important factor, affecting economic outcomes through trade linkages and investment flows in the region. ADB actively supports regional cooperation in Central Asia. The new COS highlights the paramount importance of regional cooperation as an essential condition for sustainable, poverty-reducing growth in Uzbekistan. ADB member countries in the region share a common institutional history and face similar policy and reform challenges. Moreover, the infrastructure inherited upon independence was designed to meet the needs of the former Soviet Union, not the requirements of the present independent countries.

76. Since early 1997, ADB has been providing support for enhanced economic cooperation among the CARs through regional technical assistance. The initiative covers the CARs and neighboring Xinjiang Uygur Autonomous Region of PRC. Activities under Phase I (1997 – 1998) of the initiative concentrated on identifying policy issues and infrastructure needs impeding cross-border cooperation in the areas of energy, trade, and transportation. Activities under Phase II, which began in 1999, have focused on further policy dialogue and developing high priority investment projects. In 1999, the scope of assistance was broadened from the initial three areas (energy, transport, and trade) to include regional workshops on rural finance. Work on regional aspects of education (a sector in which ADB is playing a lead role in the CARs) has been initiated. The latter two areas provide opportunities for the initiative to address more directly poverty reduction issues in a regional manner.

77. During a series of workshops and consultations with the governments, high priority policy reforms and investments were identified (e.g., rehabilitation and improvement of the interconnected electricity grid of Central Asia, and improvement and renovation of gas pipeline). The dialogue has been intensified to support policy reform and sector analysis and implement priority regional infrastructure investments. The first Central Asian Assistance Plan (CAAP) was endorsed by the Board in April 2000. The CAAP includes a tentative loan and technical assistance program for 2000 – 2003. The tentative loan and technical assistance program is

generally consistent with the thrust of the new COS and the Uzbekistan government's priority projects; the CAAP initiatives will be integrated more clearly with the operational pipelines.

78. These will be formally reviewed during the next country programming exercises to ensure continued relevance and adequate provision in the respective programs for expected TA, loan and economic and sector work activities and internal resources implications. Establishment of the Central Asia Regional Economic Cooperation Unit in April 2000 and strengthening of the functions of Uzbekistan Resident Mission will further contribute to ensuring adequate internal resources, improving coordination, and strengthening regional institutional support.

## **V. Donor Activities and Aid Coordination**

79. Activities of the multilateral and bilateral donors to Uzbekistan have been complementary and involve close coordination and collaboration. Since December 1996, the IMF program has been suspended due to the Government's introduction of restrictions on the trade and foreign exchange regimes. In the absence of an IMF program, there are no programs involving fast-disbursing assistance from any international funding agency. Japan has limited processing new project assistance. Major donors are particularly keen in the Government's implementation of a credible program of reforms and some concrete steps by the Government towards the establishment of an IMF program.

80. The World Bank group has been the principal source of multilateral assistance to Uzbekistan. The World Bank's strategy for 1998 - 2000 for assistance focused on four areas: (i) liberalizing the trade and exchange rate regimes and minimizing distortions in the financial sector; (ii) improving incentives for increased output and employment, particularly in agriculture; (iii) removing the inefficiencies in resource utilization in municipal services and infrastructure; and (iv) addressing the environmental damage resulting from the mismanagement of natural resources in the Aral Sea Basin. Through its interventions, the World Bank is addressing issues in the water supply, health and sanitation sectors, strengthening social protection and the provision of social services, and the restructuring in agriculture. The World Bank has been taking a lead in health, banking and finance, urban development, environment, and the social safety net, while ADB has taken the lead role in the education, railways, and road sector reforms. In the agriculture sector, ADB and the World Bank have been working closely to provide a consistent set of policy advice. IFC activities complement IBRD's efforts on private sector development through project lending of about \$50 - \$60 million per year as well as advisory services and policy dialogue in development of the financial sector, capital market, and export-oriented industries. Building on operational experiences in the past, the World Bank is currently initiating a new country assistance strategy for 2001 - 2003. Close coordination activities between the World Bank and ADB continue to be required particularly in the sectors/subsectors of finance, urban social infrastructure, early childhood development, and education.

81. The European Bank for Reconstruction and Development (EBRD)'s key operational priorities include (i) developing an integrated approach towards development of entrepreneurship (lending to micro and small business, and access to equity financing via the Direct Investment Facility); (ii) expanding private sector involvement and strengthening the financial sector; (iii) restructuring of privatized companies; and (iv) investments in physical infrastructure, particularly transport, communication, and energy. ADB and EBRD have coordinated support for the railway sector. Close coordination is also active in the road and financial and SME sectors.

82. The primary objective of the European Union – Technical Assistance for Commonwealth of Independent States (EU-TACIS) is to support the process of the transformation to a market economy and a democratic society. Since 1991 EU-TACIS has provided substantial grant assistance in the areas of agriculture and agro-processing, SME development, energy, human resources development, private sector development, public administration reform, restructuring of state enterprises, and transport. In addition, through the EU-TACIS regional programs, Uzbekistan has benefited particularly in the areas of transportation and environment. The EU-TACIS's new strategy, covering 2000 – 2006 is to take a more focused, dialogue-driven approach, initially concentrating on (i) minimizing the social consequences of transition, (ii) private sector development, and (iii) cross-border infrastructure development.

83. United Nations (UN) agencies are playing an important role in health and population, poverty reduction, environment, development of human resources and management capacities, gender and development, preservation of national cultural heritage, and strengthening of NGOs.

84. The Japanese Government's bilateral assistance program has provided the largest international funding for Uzbekistan with a focus on energy, telecommunications, transport, environment, and human development. Support from the Overseas Economic Cooperation Fund [now Japan Bank for International Cooperation (JBIC)] entered a hiatus with the suspension of the IMF program in 1996. Since then, the Japanese Government has limited processing new loan project assistance, although two loans were provided by JBIC to finance phase II extension of the existing local airports and telecommunication projects. From the JBIC's semi-commercial/export credit agency financing resources, JBIC has provided six export credits to finance one gas project, two oil refinery projects and two cotton spinning mill projects, and one polyethylene plant project. The Japan International Cooperation Agency opened a regional office in Tashkent in 1999, providing grant programs covering medical equipment, road construction and maintenance equipment, environment, and training and capacity building.

85. The United States Agency for International Development (USAID) is active in private sector development, banking and finance, fiscal policy reform, legal regulation, taxation, small-scale agriculture development, improving the healthcare system and family planning, and drinking water supply. To support private sector development, the USAID-funded Central Asian-American Enterprise Fund provides loans to private SMEs.

86. The German Government is supporting the Government's program of reforms, aiming at the long-term objectives of encouraging democratic and market-oriented institutions and providing substantial technical assistance in the areas of economic policy advisory services, promotion of private entrepreneurship, restructuring of agriculture, transport, legislation, professional training, and protection of the environment.

87. Despite a lack of formal consultative group meetings since 1996, aid agency activities on the whole have been complementary and involve close coordination and collaboration. Since January 1998, ADB's resident mission in Tashkent has enabled effective coordination and communication with other resident donors. To improve aid coordination and management, the ADB has provided two TA projects to the Ministry of Macroeconomics and Statistics and Department for Coordination of External Economic Activities, Cabinet of Ministers. As a result of ADB-financed TAs, the first in-country donors meeting was held in May 2000, attended by heads of resident donors and the Government's high rank officials. At the in-country donors meeting, for the first time, the country's medium-term development program, the sector specific strategies of the Government, and three reports of the public investment program, the foreign aid report, and the development partners profile were presented in a comprehensive manner to

the donor community. The donor community urged the Government to hold such in-country donor meetings on a regular basis. A summary of overall external assistance to Uzbekistan is given in Appendix 3.

## **VI. Cofinancing and Catalyzing External Resources**

88. While there has been no cofinancing of ADB projects to date, ADB is actively exploring avenues of mobilizing cofinancing especially for its projects in agriculture, SMEs, education, transport, and urban social infrastructure sectors. As part of the ADB's cofinancing strategy and in view of ADB's poverty reduction operations and the country's category as a Group C Country, ADB will vigorously explore grant or concessional cofinancing possibilities with multilateral and bilateral agencies to poverty reduction activities, particularly targeting the poor. Grant or concessional cofinancing could be utilized to support soft components of the project and to pilot test community-based poverty reduction activities (e.g., supporting social development funds, skills training and capacity building). Organization of Petroleum Exporting Countries (OPEC) Fund for International Development confirmed its co-financing arrangements for the Railway Modernization Project which was approved in 2000. Once the Government of Japan resumes full lending operations for Uzbekistan, cofinancing possibilities with JBIC could be potentially high in education and transport sectors. In the past, the Government has issued its guarantees to export credit agencies, such as US EXIM and JBIC, selectively to finance the oil and gas sector. Recently there is a growing concern over the increasing foreign borrowing with government guarantees. In these circumstances, there will be limited prospects for export credit financing and commercial cofinancing with government guarantees.

## **VII. ADB's Operational Program**

### **A. The Proposed Program**

89. The proposed lending program for 2001-2003 is in line with the operational thrust of the new COS, the Government's development and sector priorities, and absorptive capacity. The selectivity and focus of the ADB's operations in Uzbekistan will be maintained during 2001 – 2003. The difficulties of processing and implementing loan projects in previous years demonstrate that justification of the current lending indicative planning figure (IPF) relative to the country's absorptive capacity will continue to be realistically assessed. Resolving implementation issues in the existing sectors is a condition for expanding the new sectors. While some flexible approach for the three-year rolling plan could be taken rather than a rigid annual IPF approach, the current lending level could be maintained only if there is clear evidence of progress on the implementation of the current program and positive development in policy dialogue on sector reform processes. Therefore, special emphasis will be given to enhancing the policy reform agenda in the sectors indicated in the new COS to ensure that the development impact of ADB assistance is maximized through a contribution to the sustainability of the transition to a market economy. Before processing an investment project under the loan in any sector, comprehensive sector analysis, capacity building, policy dialogue and good implementation performance will be conditions. It is important for ADB to design pilot projects to test policy environment and use TAs effectively as an instrument for promoting reform measures and for capacity building. Its satisfactory outcome will be a prerequisite before proceeding a loan project.

90. In the proposed program for 2001 – 2003, there are five poverty intervention projects out of 10 projects. Five projects are currently classified as other development interventions projects. Poverty classification for the lending pipeline is preliminary, and will be further

adjusted based upon discussions with the Government and stakeholders on the project design, target, and components. As per cross-cutting operational priorities, projects will well address human development, gender and development, good governance, private sector development, environment protection, and regional cooperation.

91. Using OCR funds for poverty reduction is an issue for the Government. Uzbekistan is a Group C Country under the Graduation Policy. The ADB's financing limit will be reduced to 40 percent in 2002 (currently 50 percent in 2000). The World Bank, whose overarching objective is also poverty reduction, has financed on average more than 60 percent of total costs for approved loans in Uzbekistan. The World Bank takes a project-by-project approach to determine the financing limit. Terms and conditions of other major donors (such as JBIC and KfW) are softer than those of ADB. In this context, ADB will pursue its innovative assistance modalities by exploring possibilities of softening terms and conditions of OCR lending for poverty intervention and core poverty intervention projects, grant cofinancing and other assistance modalities (such as strategic use of the Japan Fund for Poverty Reduction).

92. The TA program during 2001 – 2003 is geared towards the priority sectors and cross-cutting operational issues identified in the new COS. The assistance will continue to support capacity-building initiatives to strengthen the Government's ability to implement its development agenda in a more effective manner and strengthen sustainability of lending programs. During the next country programming cycle, further adjustment of the TA program will be discussed with the Government to include more poverty-focused activities and the regional cooperation initiative, and further reprioritize the TA program.

93. The proposed loan and technical assistance pipeline for 2001-2003 is summarized in Table 1. Details of the pipeline and its poverty classification, and cross cutting operational priority and orientation are provided in Appendixes 4 and 5. Project profiles for firm 2001 loans are shown in Appendix 6.

**Table 1: Lending and Technical Assistance Program, 1999-2003**

A. Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program (OCR)	0	0	3	177.0	4	130.0	3	160.0	3	160.0

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program	8	3,650.0	5	3,320.0	9	4,350.0	6	4,000.0	1	600.0

Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

## B. Strengthened Role of ADB's Resident Mission

94. The new Resident Mission policy that was approved by the ADB's Board on 17 February 2000 is being implemented in Uzbekistan Resident Mission (URM). Among others, URM is expected to increase in size from one professional staff to two professional staff with the increase of national officers over the next years. It is a major step in ADB's continuing efforts to strengthen country focus and client orientation. URM will be at the center of ADB's efforts to increase the efficiency, effectiveness, and development impact of ADB operations in Uzbekistan. In addition to the functions that any resident mission should perform as ADB's principal representative in the field, including (i) government, civil society, and private sector

relations; (ii) policy dialogue and support; (iii) country reporting; (iv) aid coordination; and (v) external relations and information dissemination, as a pilot testing, project administration would be delegated to URM. To achieve redefined objectives and functions of URM, sufficient qualified staff and infrastructure are expected to be provided.

### **VIII. Economic and Sector Work Program**

95. A Country Economic Review will be prepared annually. As per new sectors identified in the new COS, a PPTA for Urban Social Infrastructure Development approved in May 2000 will include a sector study on the urban social infrastructure in Uzbekistan. The subsectors to be covered under the TA are: (i) water supply; (ii) sanitation including sewerage, wastewater treatment, and solid waste management; (iii) district heating and hot water; (iv) housing; and (v) gas and electricity. The study will undertake an overview of the sector and subsectors to determine the policy framework for service provision. Enterprise restructuring, in the broader context of financial sector, corporate governance and bankruptcy reforms, could be included in ESW either in 2001 or 2002. The TA under processing in 2000 will give some insights in this area which can be augmented through ESW. A needs assessment will be made for early childhood development in close coordination with the World Bank and UN agencies.

96. In addition, in close coordination with other major donors such as the World Bank and IMF, some ESW may be required to make an assessment of the social and adjustment costs, resulting from implementation of planned reforms (e.g., liberalization of the foreign trade and exchange regimes) during 2000 - 2001. Incorporating the results of the World Bank-financed living standard survey, additional work might be required to strengthen a poverty analysis to formalize the Poverty Partnership Agreement in 2001. Appropriate modalities and resources requirements (e.g., TA, staff study, staff consultant work) to undertake these ESWs will be further determined.

### **IX. Local Cost Financing**

97. Following the ADB's Graduation Policy for DMCs adopted in December 1998, Uzbekistan is categorized as a Group C Country. Effective 1 January 1999, there are changes in the project cost-sharing limits for Uzbekistan, falling from 60 percent to 40 percent in a phased manner, with a 5 percentage points reduction per year. For the six loans approved to date, ADB has financed about 52 percent of total project cost, including local cost financing 3.3 percent (\$15.7 million) out of total local costs. It is expected that Uzbekistan, at least in the near term, will continue to borrow from ADB for financing relatively small amount of local costs. The Government's major concern is serious consideration and implication of counterpart funds availability for projects for 2001 – 2003 due to the larger financing share to be born by the Government.

**UZBEKISTAN**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1995	1996	1997	1998	1999	2000 (Estimate)	
<b>ECONOMIC INDICATORS</b>							
<b>A. Income and Growth</b>							
1. GNP per Capita (\$, current prices) <sup>a</sup>	970	1,010	1,020	870	-	-	
2. GDP Growth (%) (in constant prices)	-0.9	1.6	5.2	4.4	4.4	3.0	
a. Agriculture	2.0	-7.3	5.8	4.0	5.9	-	
b. Industry	-5.6	1.7	2.2	2.3	6.1	-	
c. Services	-0.5	5.0	5.9	3.0	4.7	-	
<b>B. Saving and Investment</b> (at current market prices)							
			<b>(percent of GDP)</b>				
1. Gross Domestic Savings	20.4	7.9	14.9	9.9	10.5	11.0	
2. Gross Domestic Investment	20.9	15.1	18.9	10.2	11.8	12.0	
<b>C. Money and Inflation</b>							
			<b>(annual percent change)</b>				
1. Consumer Prices (end of period)	116.9	64.3	27.6	26.1	26.0	20.0	
2. Broad Money (M2)	158.1	113.7	36.0	28.0	31.5	32.0	
<b>D. Central Government Finances</b>							
			<b>(percent of GDP)</b>				
1. Revenue	38.1	39.9	32.0	34.8	32.6	31.1	
2. Expenditure	34.6	34.3	29.7	32.4	31.5	34.1	
3. Overall Surplus/Deficit (-) (including extrabudgetary funds)	-4.1	-7.4	-2.2	-3.4	-2.2	-3.0	
<b>E. Balance of Payments</b>							
1. Merchandise Trade Balance (% of GDP)	2.0	-6.8	-0.5	0.0	0.5	1.2	
2. Current Account Balance (% of GDP)	-0.2	-7.2	-4.0	-0.6	-1.3	-1.0	
3. Export (\$) Growth (annual percent change)	18.2	1.7	4.5	-21.8	-10.0	8.5	
4. Import (\$) Growth (annual percent change)	18.8	31.0	-11.2	-25.2	10.0	8.2	
<b>F. External Payments Indicators</b>							
1. Gross Official Reserves (\$ million; end of period)	1,867	1,901	1,167	1,168	1,283	1,182	IMF
-months of imports	6.2	4.8	3.7	5.2	5.9	5.0	IMF
2. External Debt Service (% of exports of goods and service)	7.0	8.3	9.0	9.0	11.0	26.2	
3. External Debt (% of GDP)	14.7	17.1	18.2	24.8	28.1		IMF
<b>Memorandum Items:</b>							
GDP (current prices, million sums)	302,789	559,073	987,352	1,358,000	1,942,000	2,917,000	
Exchange Rate (sums per US dollar; average of the period)	29.8	40.2	67.7	94.7	124.9	450.0	

- = Not available; GNP = Gross National Product; GDP = Gross Domestic Product.

<sup>a</sup> World Bank estimates, using Atlas methodology based on a three-year average of inflation-adjusted exchange rates.

Sources: Uzbekistan authorities and IMF.

**UZBEKISTAN**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	Latest Year	Remarks
<b>POPULATION INDICATORS</b>				
Total Population (1,000)	18,110	20,420	24,100 (1998)	<i>UNDP Human Dev't. Report for UZB 1998</i>
Rural Population (% of total)	59.7	59.4	62.0 (1998)	<i>derived, UNDP 1for UZB 998</i>
Annual Population Growth Rate (% change)	2.7	2.2	1.5 (1998)	<i>UNDP Human Dev't. Report for UZB 1998</i>
Human Development Index	–	0.703	0.697 (1998)	<i>HDR 98 for UZB</i>
Real GDP Per Capita (PPP\$)	–	2,510 (1993)	2,829 (1998)	1992 data; latest data is 1997 AB table
<b>SOCIAL INDICATORS</b>				
Crude birth rate	37.4	33.7	23.0 (1998)	HDR 96; not consistent with AB table
Crude death rate	7.2	6.1	5.8 (1998)	
Maternal Mortality Rate (per 100,000 live births)	48.6	34.1	9.6 (1998)	AB table; not consistent with HDR 96 (see also Children & women in UZB)
Infant Mortality Rate (below 1 year; per 1,000 live births)	45.3	34.6	22.8 (1997)	Children & women in UZB; 94-AB
Contraceptive prevalence rate (%)	–	19.0 (1993)	45.2 (1997)	
Life Expectancy at Birth (years)	–	69.3	70.3 (1998)	HDR 96, not consistent with AB
Male	–	66.1	68.2 (1998)	AB
Female	–	72.4	73.0 (1998)	
Adult Literacy (%)	–	93.0	99.2 (1998)	90-AB table, 94, HDR 96
Secondary school enrollment (% share to total)	–			
Male	–	51.0 (1992)	47.9 (1998)	AB table
Female	–	49.0 (1992)	52.1 (1998)	
Full-time enrollment in tertiary education (% share to total)	–			AB table
Male	–	60.7 (1992)	61.9 (1998)	
Female	–	39.3 (1992)	38.1 (1998)	AB table
Public Education Expenditure as % of GDP	–	11.6 (1992)	7.3 (1998)	HDR 96
Public Health Expenditure as % of GDP	–	5.5 (1992)	3.6 (1998)	
<b>ENVIRONMENTAL INDICATORS</b>				
Population density (people per sq. km)	–	48.5 (1992)	54 (1998)	
Sulphur and nitrogen emissions (kg of NO <sub>2</sub> and SO <sub>2</sub> per capita)	–	25.7 (1992)	20.3 (1998)	
Cultivated land (as percent of land area)	–	9.97 (1992)	10.1 (1998)	HDR 96
Forested and wooded land (as percent of land area)	–	3.0 (1992)	3.0 (1998)	HDR 96
Irrigated land (as percent of arable area)	–	93.0 (1992)	95 (1998)	HDR 96

– = Not Available; GDP = Gross Domestic Product.

Sources: Uzbekistan authorities and Human Development Report, Uzbekistan 1999.

Source: **Programs Division.**

**UZBEKISTAN**  
**PORTFOLIO PERFORMANCE**

**Table 1: Implementation, Disbursement Performance and Post Evaluation Results**  
**Public Sector Projects only**  
(as 31 December 1999)

A. Project Portfolio	Net Loan Amount (\$ million) (%)		Rating (No.) <sup>a</sup>											
			Total		Implementation Progress				Development Objectives					
			(No.)	(%)	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance and Industry	50.0	23.8	1	20.0	-	1	-	-	-	-	-	-	1	-
Transport and Communications	120.0	57.2	2	40.0	1	-	1	-	-	-	2	-	-	-
Social Infrastructure	39.9	19.0	2	40.0	-	-	2	-	-	-	2	-	-	-
Multisector/Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>209.9</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>

  

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	163	19.9	182.7
(2) Disbursed amount (\$ mn, cumulative, active loans only)	17.4	0.5	17.9
(3) Percentage disbursed [(2)/(1)] (%)	10.7	2.8	9.8
(4) Disbursements (\$mn, active loans only, Jan-Dec 1999)	16.0	0.1	16.1
(5) Disbursement ratio (%) <sup>b</sup>	8.5	0.5	7.7

  

C. Net Resource Transfers (\$million)	OCR	ADF	Total
Net Transfer in 1995	-	-	-
Net Transfer in 1996	-	-	-
Net Transfer in 1997	-	-	-
Net Transfer in 1998	1.4	0.5	1.9
Net Transfer in 1999	15.6	0.1	15.7

  

D. Post-Evaluated Projects	1968-1977		1978 - 1987		1988-1999		1968-1999	
	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
<b>1. Postevaluation Rating</b>								
Rated Generally Successful (GS)	-	-	-	-	-	-	-	-
Rated Partly Successful (PS)	-	-	-	-	-	-	-	-
Rated Unsuccessful (US)	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-
<b>2. Postevaluation Rating by Sector (1968-1998)</b>								
	<b>GS</b>		<b>PS</b>		<b>US</b>		<b>Total</b>	
	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
Agriculture and Natural Resources	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-
Multisector/Others	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Sources: COPP, CTD, and OEO.

**UZBEKISTAN**  
**PORTFOLIO PERFORMANCE**

**Table 2 : Status of Project Implementation**  
**Public Sector Projects only**  
(as of 31 December 1999)

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum. Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating <sup>b</sup>	
		OCR	ADF			Original	Revised				Implementation	Development
		(\$ million)				(mm/yy)					Progress	Objective
I&F	Rural Enterprises Development Project	50.00	-	Dec-96	Jun-97	Jun-02	-	-	42.82	9.93	S	PS
SOC	Basic Education Textbook Development	20.00	-	Dec-97	Aug-98	Jun 03	-	-	-	-	PS	S
SOC	Basic Education Textbook Development	-	19.86	Dec-97	Aug-98	Jun 03	-	-	0.17	0.55	PS	S
T&C	Railway Rehabilitation	70.00	-	Sep-98	Feb-99	Dec-03	-	15	44.43	7.42	HS	S
T&C	Road Rehabilitation	50.00	-	Dec-98	Apr-99	Jun-03	-	-	-	0.03	PS	S
<b>Total</b>		<b>190.00</b>	<b>19.86</b>						<b>87.43</b>	<b>17.94</b>		

<sup>a</sup> Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

SOC: Social Infrastructure

I&F: Industry and Finance

T&C: Transport and Communications

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory.

Source : COPP.

**UZBEKISTAN**  
**OVERALL EXTERNAL ASSISTANCE**  
(\$ million)

External Source	1995-1998 (Cumulative Commitments)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
ADB	210.00	10.73	-	3.65
IBRD	413.00	...	55.00 <sup>a</sup>	...
IFC	96.60 <sup>a</sup>	...	50.00 <sup>a</sup>	...
EBRD	272.92 <sup>a</sup>	...	104.50 <sup>a</sup>	...
UNDP	...	13.00	...	2.60
EU TACIS	...	40.11	...	7.40
Others	...	...	...	...
Subtotal	<b>992.52</b>	<b>63.84</b>	<b>209.50</b>	<b>13.65</b>
<b>B. Bilateral Assistance</b>				
Germany	76.80	18.56	19.70	0.52
Japan	312.10 <sup>b</sup>	...	135.70 <sup>c</sup>	22.30
Others	...	...	...	...
Subtotal	<b>388.90</b>	<b>18.56</b>	<b>155.40</b>	<b>22.82</b>
<b>Total (a+b)</b>	<b>1,381.42</b>	<b>82.39</b>	<b>364.90</b>	<b>36.47</b>

... = not available.

<sup>a</sup> Approvals.

<sup>b</sup> Covers the period 1995-1996.

<sup>c</sup> Approved in 1999 based upon negotiations with the Government in 1996 (phase II extension of the existing local airports and telecommunications projects).

Sources: The World Bank Country Assistance Strategy for 1998-2000; EBRD: Strategy for Uzbekistan;  
EU TACIS Annual Report; UNDP Development Cooperation Report; Foreign Aid Report (31st December 1999);  
and 2000 Development Partner Profiles.

**UZBEKISTAN**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003**  
(Amounts in \$ million)

Sector/Project Name	Poverty Classification <sup>a*</sup>	Crosscutting Operational Priority <sup>b*</sup>	Responsible Division	Year of PPTA	PROJECT COST					
					TOTAL	ADB		Gov't <sup>c</sup>	Co-financing (Others)	
						OCR	ADF			Total
<b>2001 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b> 1. Rural Savings and Credit Union Development 2. Grain Productivity Improvement <i>Subtotal</i>	PI	PSD	AEAR	1999	TBD	30.0	-	30.0	TBD	-
	ODI	ENV	AEFN	1998	TBD	20.0	-	20.0	TBD	-
					TBD	50.0	0.0	50.0	TBD	-
<b>Social Infrastructure</b> 1. Basic Education Staff Development 2. Urban Social Infrastructure Development <i>Subtotal</i>	ODI	HD and GAD	AEEH	1999	100.0	40.0	-	40.0	60.0	-
	PI	HD and GG	AEWU	2000	TBD	40.0	-	40.0	TBD	-
					TBD	80.0	0.0	80.0	TBD	-
<b>Total</b>					<b>TBD</b>	<b>130.0</b>	<b>0.0</b>	<b>130.0</b>	<b>TBD</b>	<b>-</b>
<b>2002 LOAN PIPELINE</b>										
<b>Agriculture and Natural Resources</b> 1. Water Resources Management 2. Support for Agriculture Sector Restructuring <i>Subtotal</i>	PI	ENV	AEFN	2001	TBD	50.0	-	50.0	TBD	-
	ODI	GG and PSD	AEFN	2001	TBD	50.0	-	50.0	TBD	-
					TBD	100.0	0.0	100.0	TBD	-
<b>Social Infrastructure</b> 1. Education Sector Development <i>Subtotal</i>	PI	HD	AEEH	2001	TBD	60.0	-	60.0	TBD	-
					TBD	60.0	0.0	60.0	TBD	-
<b>Total</b>					<b>TBD</b>	<b>160.0</b>	<b>0.0</b>	<b>160.0</b>	<b>TBD</b>	<b>-</b>
<b>2003 LOAN PIPELINE</b>										
<b>Social Infrastructure</b> 1. Second Senior Secondary Education <i>Subtotal</i>	PI	HD	AEEH	2002	TBD	50.0	-	50.0	TBD	-
					TBD	50.0	0.0	50.0	TBD	-
<b>Transport and Communications</b> 1. Second Road Rehabilitation 2. Third Railway Development <i>Subtotal</i>	ODI	RC	IETC	2002	TBD	60.0	-	60.0	TBD	-
	ODI	RC	IETC	2002	TBD	50.0	-	50.0	TBD	-
					TBD	110.0	0.0	110.0	TBD	-
<b>Total</b>					<b>TBD</b>	<b>160.0</b>	<b>0.0</b>	<b>160.0</b>	<b>TBD</b>	<b>-</b>

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development, and RC = Regional Cooperation.

<sup>c</sup> Government financing needs to be further defined.

TBD = to be determined.

\* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

**UZBEKISTAN**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003 <sup>a</sup>**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			ADB	Others	Total
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1. Pilot Testing of Rural Savings and Credit Union	AEAR	AD	150.0		150.0
2. Supporting Rural Savings & Credit Union*	AEAR	AD	400.0		400.0
3. Furthering Policy Reform in the Food Grain Subsector*	AEFN	AD	500.0		500.0
4. Water Resources Management in Agriculture Sector	AEFN	PP	600.0		600.0
5. Support for Agriculture Sector Restructuring	AEFN	PP	600.0		600.0
	Subtotal		<u>2,250.0</u>		<u>2,250.0</u>
<b>Social Infrastructure</b>					
1. Education Sector Development	AEEH	PP	500.0		500.0
2. Improvement of Education Management *	AEEH	AD	600.0		600.0
3. Supporting Urban Social Infrastructure Development *	AEWU	AD	600.0		600.0
4. Development of Cadastral Survey and Land Management System	AEWU	AD	400.0		400.0
	Subtotal		<u>2,100.0</u>		<u>2,100.0</u>
	<b>Total</b>		<b>4,350.0</b>		<b>4,350.0</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1. Institutional Support for Restructuring*	AEFN	AD	600.0		600.0
2. Supporting Water Resources Management Policy and Capacity Building	AEFN	AD	600.0		600.0
	Subtotal		<u>1,200.0</u>		<u>1,200.0</u>
<b>Social Infrastructure</b>					
1. Second Senior Secondary Education	AEEH	PP	800.0		800.0
2. Furthering Policy Reform in the Education Sector *	AEEH	AD	600.0		600.0
	Subtotal		<u>1,400.0</u>		<u>1,400.0</u>
<b>Transport and Communications</b>					
1. Third Railway Development	IETC	PP	700.0		700.0
2. Second Road Rehabilitation	IETC	PP	700.0		700.0
	Subtotal		<u>1,400.0</u>		<u>1,400.0</u>
	<b>Total</b>		<b>4,000.0</b>		<b>4,000.0</b>
<b>2003 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Transport and Communications</b>					
1. Furthering Policy Reform in the Road Sector*	IETC	AD	600.0		600.0
	<b>Total</b>		<b>600.0</b>		<b>600.0</b>

<sup>a</sup> Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

\* Piggy-backed to a loan.

**UZBEKISTAN**  
**LENDING PROGRAM, 2001-2003**  
**BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR**

Classification	2001 (Firm)		2002-2003	
	No.	% <sup>a</sup>	No.	% <sup>a</sup>
<b>I. By Poverty Classification*</b>				
A. Core Poverty Intervention	-	-	-	-
B. Poverty Intervention	2	50.0	3	50.0
C. Other Development Interventions	2	50.0	3	50.0
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>
<b>II. By Crosscutting Operational Priority*</b>				
A. Environment	1	25.0	1	16.7
B. Gender and Development	-	-	-	-
C. Good Governance	-	-	1	16.7
D. Human Development	2	50.0	2	33.3
E. Private Sector Development	1	25.0	-	-
F. Regional Cooperation	-	-	2	33.3
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>
<b>III. By Sector</b>				
A. Agriculture and Natural Resources	2	50.0	2	33.3
B. Energy	-	-	-	-
C. Finance and Industry	-	-	-	-
D. Transport and Communications	-	-	2	33.3
E. Social Infrastructure	2	50.0	2	33.3
F. Others/Multisector	-	-	-	-
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>

<sup>a</sup> rounded off.

\* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

## UZBEKISTAN

<b>PROJECT PROFILE</b>					
<b>1. Project Name:</b> Rural Savings and Credit Union Development			<b>2. Sector/Subsector:</b> Agriculture and Rural Development		
<b>3. Poverty Classification:</b> <sup>a *</sup> PI			<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> PSD (TBD)		
<b>5. Rationale &amp; Objectives:</b> <p>Despite agriculture's dominance in the economy, the existing policy, legal and regulatory framework does not provide a particularly favorable environment for the expeditious development of the rural financial market. A system of direct and indirect controls, and implicit and explicit taxes and subsidies on agriculture has led to distortions in relative prices. On the one hand there are producer price controls and on the other free or subsidized provision of inputs and credit. The net effect on producers and agribusiness is a negative impact on income (only a small percentage of producers and agribusinesses benefit from the subsidies) and an inefficient allocation of resources both within the sector and across other sectors.</p> <p>Based on knowledge and experience elsewhere in transition economies it would appear that the domestic savings potential of the population, particularly in rural areas, is not being mobilized. Consequently, the potential of the country to utilize its own domestic resources for investment in and development of the economy has not been maximized. There would therefore appear to be scope in the rural financial market for new non-bank financial institutions that mobilize domestic savings and provide credit services. However, if the rural financial market is to play a positive role in rural development, changes in Government policies to support savings mobilization and the establishment of rural non-bank financial institutions are necessary. In addition to new legislation, existing policies that affect pricing of financial products and services, taxation, and liquidity of mobilized savings will require review.</p>			<b>6. Beneficiary Participation/Consultation Needs:</b> <ul style="list-style-type: none"> <li>Stakeholders and beneficiaries will participate in the project design through consultations and socioeconomic surveys.</li> <li>Poverty impact assessments.</li> </ul>		
<b>7. Scope:</b> <p>The Project will aim to supply loans to a market that is currently underserved and must mobilize rural financial savings as their primary source of loan funds. Mobilization of members' savings reduces dependence on Government supplied funds. The introduction of savings and credit unions (SCUs) in rural areas would allow the pooling of capital that otherwise would not be available to further economic growth. SCUs worldwide have played a major role in mobilizing rural financial savings. While several types of institutions can provide such financial products and services, SCUs have demonstrated their adaptability in many countries with differing political, economic and social environments.</p> <p>The objectives of the TA are to support the development of a legal and regulatory framework for the establishment of SCUs and to help Government prepare a project to be financed with Bank support. The TA will be implemented in two phases. Phase 1 will identify policy constraints and assist Government in the establishment of an appropriate legal and regulatory framework for SCUs. Phase 2 will continue and expand activities initiated under Phase 1 and assist the Government in the preparation of a project.</p>					
<b>8. Estimated Cost &amp; Financing Plan :</b>				<b>Remarks</b>	
<b>Loan Project Cost (\$m)</b>					
<b>Financing (Source)</b>		<b>FC</b>	<b>LC</b>		<b>Total</b>
ADB					30.0
Co-financing					
Borrower					
Sub-borrowers					
<b>Total</b>		<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	
<b>9. Estimated Benefits and Beneficiary Groups:</b> TBD					
<b>10. Executing Agency:</b> Central Bank of Uzbekistan			<b>11. Project Implementation Period:</b> Start: TBD End:		
<b>12. Environment Category:</b> C			<b>13. Processing Year:</b> 2001		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

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## UZBEKISTAN

PROJECT PROFILE				
<b>1. Project Name:</b> Grain Productivity Improvement		<b>2. Sector/Subsector:</b> Agriculture and Natural Resources/ Agricultural Support Services		
<b>3. Poverty Classification:</b> <sup>a *</sup> ODI		<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> ENV (TBD)		
<b>5. Rationale &amp; Objectives:</b> The achievement of food security is a major goal of the Government. At the same time, the optimal degree of self-sufficiency depends upon Uzbekistan's comparative advantage and environmental considerations. The Project's primary objective will be to support the efficient improvement of productivity in irrigated and rainfed cereal production by establishing support mechanisms to facilitate the development and growth of private cereal farms in a market-oriented economy. A secondary objective will be to ensure the environmentally sustainable management of soils and water resources used in cereal production.		<b>6. Beneficiary Participation/Consultation Needs:</b> <ul style="list-style-type: none"> <li>Potential Project beneficiaries will be consulted extensively through community surveys, a social assessment, and formal stakeholder workshops.</li> </ul>		
<b>7. Scope:</b> In support of the Government's medium-term strategy for increasingly market-oriented grain sector development, the Project's design will be based on a detailed analysis of constraints to efficient growth and the relative medium-term costs and benefits of alternative strategies for achieving foodgrain security through domestic supply and international trade. This analysis will cover rainfed and irrigated grain production, and competing uses of land for fodder crops, horticulture, and pasture. Depending upon the findings and recommendations of the PPTA, the Project's components may include (i) cost-effective, financially sustainable adaptive research and farm extension services; (ii) training for farmers, farmer associations, and agricultural support service personnel in efficient; environmentally sustainable technologies for cereal production; (iii) systems for competitive input supply; (iv) improvement of the technical efficiency and competitiveness of grain storage, processing, and marketing; and (v) market-oriented policy, legal, and institutional reforms that are essential to facilitate successful Project implementation.				
<b>8. Estimated Cost &amp; Financing Plan :</b>				<b>Remarks</b> Government's commitment to the market-oriented reforms necessary to ensure adequate incentives for farmers to participate in the Project and make any required contributions to cost recovery.
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB			20.0	
Co-financing				
Borrower				
Sub-borrowers				
<b>Total</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	
<b>9. Estimated Benefits and Beneficiary Groups:</b> Direct Project benefits will include higher and more sustainable agricultural incomes for private farmers in the major cereal-producing regions of the country. Consumers will benefit through an improved domestic food supply at reasonable cost. Environmental benefits will include the reduced degradation of agricultural land through more sustainable on-farm use of water and other inputs in cereal production.				
<b>10. Executing Agency:</b> Ministry of Agriculture and Water Resources		<b>11. Project Implementation Period:</b> Start: 2001 End: 2006		
<b>12. Environment Category:</b> B (Provisional)		<b>13. Processing Year:</b> 2001		

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## UZBEKISTAN

PROJECT PROFILE													
<b>1. Project Name:</b> Basic Education Staff Development Project			<b>2. Sector/Subsector:</b> Education										
<b>3. Poverty Classification:</b> <sup>a *</sup> ODI			<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> HD, GAD										
<b>5. Rationale &amp; Objectives:</b> The Project is designed to contribute to the implementation of the National Program in the area of basic education. Its broad objective is to support quality and efficiency of basic education by enhancing staff performance. The project will complement ongoing assistance provided by ADB by expanding the teacher training capacity to support the introduction of textbooks reflecting the new curriculum / standards and teaching methods. It will largely address social equity and poverty reduction concerns by responding in priority to the needs of teaching staff considered as vulnerable (redundant or under-qualified) and those serving in remote and poor areas. The expansion of the teacher outreach through distance education will benefit essentially rural areas and poor schools whose teachers are de facto excluded from further training. A major focus of the Project is to inform staff reductions and cost rationalization plans and at the same time to mitigate their possible negative impact, both from social and educational perspectives.			<b>6. Beneficiary Participation/Consultation Needs:</b> <ul style="list-style-type: none"> <li>Key stakeholders, including representatives of teachers, parents and local education authorities, participated in the project design through consultation workshops and field surveys. A school improvement fund, managed at the community level is proposed to be established.</li> </ul>										
<b>7. Scope:</b> The Project includes five main components/immediate objectives (i) improving efficiency in the use of teaching and non-teaching staff, (ii) expanding access to in-service training through distance education, (iii) disseminating new teaching methods, (iv) strengthening community involvement with schools, and (v) improving service conditions. Critical activities will include (i) advisory services to assist in designing, implementing and monitoring staff redeployment policies; (ii) provision of equipment and materials for establishing a distance education capacity for teacher retraining; (iii) preparation and implementation of teacher education programs in three critical areas (upgrading program for under-qualified primary school teachers, multiple specialization for redundant secondary school teachers, multigrade teaching for teachers of small rural schools, new teaching methods); (iv) study visits and assignments for selected teaching staff; and (v) establishment of school community funds in poor districts.													
<b>8. Estimated Cost &amp; Financing Plan :</b>				<b>Remarks</b>									
<b>Loan Project Cost (\$m)</b>													
<b>Financing (Source)</b>		<b>FC</b>	<b>LC</b>		<b>Total</b>								
ADB		40.0	-		40.0								
Co-financing		-	-		-								
Borrower		-	60.0		60.0								
Sub-borrowers		-	-		-								
<b>Total</b>		<b>40.0</b>	<b>60.0</b>	<b>100.0</b>									
<b>9. Estimated Benefits and Beneficiary Groups:</b> The immediate beneficiaries of the Project are the nearly 500,000 staff of basic education, and more particularly female teachers and those in remote areas. The in-service teacher training institutions and their distance education branches to be established by the Project are the main intermediaries in reaching these beneficiaries. The ultimate beneficiaries of the Project are the 5 million children enrolled in basic education whose schooling will become more relevant and learning environment more stimulating.													
<b>10. Executing Agency:</b> Central Institute for Teacher Training under the Ministry of Public Education			<b>11. Project Implementation Period:</b> <table style="margin-left: 40px;"> <tr> <td></td> <td>PPTA</td> <td>Loan</td> </tr> <tr> <td>Start:</td> <td>1999</td> <td>2001</td> </tr> <tr> <td>End:</td> <td>2000</td> <td>2007</td> </tr> </table>			PPTA	Loan	Start:	1999	2001	End:	2000	2007
	PPTA	Loan											
Start:	1999	2001											
End:	2000	2007											
<b>12. Environment Category:</b> B			<b>13. Processing Year:</b> 2001										

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

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## UZBEKISTAN

<b>PROJECT PROFILE</b>					
<b>1. Project Name:</b> Urban Social Infrastructure Development			<b>2. Sector/Subsector:</b> Social Infrastructure		
<b>3. Poverty Classification:</b> <sup>a *</sup> PI			<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> HD, GG		
<b>5. Rationale:</b> During the Soviet era the considerable investment in urban infrastructure was based on the standard methodologies and norms adopted at that time. Since independence in 1991, investment has slowed and basic urban social infrastructure services such as water supply, sanitation, drainage, solid waste management, district heating and hot water supply have deteriorated. The operation and maintenance (O&M) of aging assets have become increasingly difficult, performance efficiency has dropped, and the cost of service delivery has risen. As a result the urban population is receiving service of a lower standard that is affecting their living and health conditions. Accordingly there is a pressing need to improve the basic urban infrastructure facilities. There is also a need to build the capacity of the sector agencies concerned to enable them to implement subprojects and to develop their ability to undertake O&M of the constructed systems. Reforms envisaged by the Government include the decentralization of power and responsibility for urban social infrastructure and its assets to the local authorities. The Project will support the Government in enhancing the coverage of basic infrastructure facilities, contributing to improving living and health conditions, in particular for the poor population, and improving the institutional, organizational and managerial capabilities of the sector agencies. In addition to poverty reduction, the Project will contribute to economic development and improvement to the urban environment as well as attract private sector participation.			<b>6. Beneficiary Participation/Consultation Needs:</b> <ul style="list-style-type: none"> <li>• Stakeholders and beneficiaries will participate in the project design through consultations and socioeconomic surveys.</li> <li>• Poverty impact assessment.</li> <li>• Social needs assessment survey.</li> </ul>		
<b>7. Scope:</b> The Project aims to improve the quality of life of urban residents by enabling the provision, upgrading and rehabilitation of basic urban infrastructure and services. The Project will also improve the urban poor access to affordable basic social infrastructure and services in the Project area by ensuring that the needs of the poor communities are considered in the prioritization of central and local governments' investments. The Project will achieve its objectives by (i) improving the capacity of the central and local governments in the delivery of the infrastructure services; (ii) improving the technical and financial capability of local governments and responsible sector agencies in the planning, implementation, and O&M of urban infrastructure facilities; and (iii) promoting ownership and community management of urban infrastructure services. The Project will consist of two parts: Part A: Physical Infrastructure; and Part B: Institutional Development.					
<b>8. Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>	
<b>Loan Project Cost (\$m)</b>					
<b>Financing (Source)</b>		<b>FC</b>	<b>LC</b>		<b>Total</b>
ADB					40.0
Co-financing					
Borrower					
Sub-borrowers					
<b>Total</b>		<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	
<b>9. Estimated Benefits and Beneficiary Groups:</b> TBD					
<b>10. Executing Agency:</b> TBD			<b>11. Project Implementation Period:</b> Start: TBD End:		
<b>12. Environment Category:</b> B			<b>13. Processing Year:</b> 2001		

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