ASIAN INFRASTRUCTURE INVESTMENT BANK

Climate Policy-Based Financing

Approval Program Document

P001011 Uzbekistan: Green and Resilient Market Economy Climate Policy-Based Financing

Currency Equivalents

As at September 30, 2025

Currency Unit – Uzbekistan Som (UZS)
USD1.00 = UZS12,067.76

Fiscal Year

January 1 – December 31

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CBU	Central Bank of Uzbekistan
CCDR	Country Climate Development Report
CoA	Chamber of Accounts
CPBF	Climate Policy-Based Financing
CPCPC	Competition Policy and Consumer Protection Committee
DPO	Development Policy Operation
ESCO	Energy Service Company
ESP	Environment and Social Policy of AIIB
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
JSC	Joint Stock Company
MOEF	Ministry of Economy and Finance
MRV	Measurement, Reporting and Verification
NDC	Nationally Determined Contribution
NEEA	National Energy Efficiency Agency
NZ	Net Zero
PA	Prior Action
PFM	Public Financial Management
PIM	Public Investment Management
PPP	Public-Private Partnership
SOE	State-Owned Enterprise
WB	World Bank

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1. Executive Summary

The Program is the first in a programmatic series of two WB-led operations. It supports the Government of Uzbekistan's policy and institutional reforms by: (i) advancing sectoral measures in the energy and state-owned enterprise (SOE) sectors to improve resource and energy efficiency and strengthen resilience; (ii) enhancing public administration to promote green procurement; and (iii) establishing clear, transparent rules for creating and trading carbon credits, alongside a robust measurement, reporting, and verification (MRV) system to scale private climate finance. At the GoU's request, AIIB will provide co-financing of USD500 million, with a final maturity of 25 years and a grace period of 5 years, yielding an average maturity of around 14.8 years.

AIIB provides sustained, programmatic policy dialogue and complements WB leadership by deepening energy and SOE reforms that unlock downstream investments in renewables, distributed energy, efficiency, and grids. AIIB conducted its own due diligence and leveraged WB analytical underpinnings.

AIIB's Environmental and Social Policy and the Environmental and Social Exclusion List apply to the Program. The assessment of the environmental and social impacts of the Program is largely informed by the analytical work of the WB, the co-financier, including an environmental and social impact analysis matrix prepared for specific policy actions.

Implementation capacity and policy reversal risks are mitigated by a programmatic series and strong government ownership. The Program's policy actions are expected to generate substantial environmental benefits—particularly GHG reductions, air quality improvements, and resilience—while managing short- to medium-term risks through measures such as phased tariff reforms with compensations, strengthened environmental assessments, MRV for carbon credits, creation of NEEA to drive efficiency and ESCO markets, targeted incentives for distributed renewables and retrofits, and green public procurement standards. Socially, five of seven actions are expected to yield positive impacts; near-term affordability and transition risks from tariff and power market reforms are mitigated via targeted cash transfers, while SOE reforms embed OECD-aligned ESG, and energy-efficiency incentives reduce household energy burdens—with grievance mechanisms and gender co-benefits supported by national gender policies and a Climate Change Gender Action Plan.

Program No.	P001011
Program Name	Uzbekistan Green and Resilient Market Economy Climate Policy-Based Financing
AIIB Member	Uzbekistan
Borrower	Republic of Uzbekistan
Guarantor	Not Applicable
Program Implementation Entity	Ministry of Economy and Finance (MOEF), Uzbekistan
Sector Subsector	Energy Multi-subsector
Alignment with AIIB's thematic priorities	Green infrastructure

Program Objective	To help the Government of Uzbekistan implement key policy and governance reforms aimed at accelerating Uzbekistan's transition to a green economy.
Program Description	The Program supports Uzbekistan's policy and institutional reforms by: (i) advancing sectoral measures in the energy and state-owned enterprise (SOE) sectors to improve resource and energy efficiency and strengthen resilience; (ii) enhancing public administration to promote green procurement; and (iii) establishing clear, transparent rules for creating and trading carbon credits, alongside a robust measurement, reporting, and verification (MRV) system to scale private climate finance. The Program aligns with Uzbekistan's 2030 national development strategy, adopted in 2023, which prioritizes transitioning to a green economy through the increased use of renewable energy and improved energy efficiency. The transition to low-carbon, resource-efficient, resilient and socially and environmentally sustainable economic growth is central to Uzbekistan's development agenda, as outlined in its "Strategy for Transition to a Green Economy for the Period 2019–2030" (hereinafter referred to as the "Green Economy Strategy") and supports the government's more ambitious climate targets in its updated Nationally Determined Contributions (NDC, 2021). The Program is the first in a programmatic series of two operations for fiscal years 2025 and 2026. The proposed 2025 Program supported by AIIB is a pivotal part of the World Bank's First Advancing Global Integration and Market Transition Development Policy Operation (DPO1), which targets policy reforms to advance Uzbekistan's green transition. The World Bank financing for DPO1 amounts to USD800 million. At the government's request, AIIB will co-finance the climate-focused policy reforms under DPO1 with a USD500 million contribution, bringing the total DPO1 financing to USD1.3 billion. The MOEF serves as the main implementing agency and will coordinate with other government agencies to execute the Program. These include the Ministry of Energy, State Assets Management Agency, National Energy Efficiency Agency, and Ministry of Ecology, Environmental Protection and Climate Change.
Implementation Period	11/30/25 12/31/28
Expected Loan Closing Date	June 30, 2027

Proposed Amount of AIIB Financing (USDm)	USD500.00m
Financing Plan	World Bank: USD800 million AIIB: USD500 million
ES Category (or AIIB equivalent, if using another MDB's ES Policy)	Not Applicable
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	(a) The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework; and (b) The Co-financing Agreements have been executed and delivered, and all conditions precedent to their effectiveness or the right of the Borrower to make withdrawals under them (other than the effectiveness of the Loan Agreement) have been fulfilled.
Legal Covenants	The Borrower declares its commitment to the Program and its implementation. To this end, the Borrower: a) the Borrower and the Bank shall from time to time, at the request of either Party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program; b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request, and c) without limitation upon paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any Policy Actions. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Program is carried out in accordance with the provisions of Schedule 2 to the Loan Agreement
Retroactive Financing (Loan percent and dates)	No
Policy Waivers Requested	No
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank Financing complies with the applicable Bank operational policies.
Economic Capital (ECap) Consumption (USDm)	USD60.92 million (12.18%)

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2. Program Description

A. Program Overview

2.1 **Program Objectives.** The Program will support the Government of Uzbekistan in implementing key policy and institutional reforms to accelerate its transition to a green economy. This shift toward a low-carbon, resource-efficient, resilient and sustainable growth is central to Uzbekistan's development agenda, as set out in its Green Economy Strategy (2019–2030), and reinforces the government's enhanced climate commitments in its updated Nationally Determined Contribution (NDC, 2021). The Program also aligns with the Uzbekistan-2030 national development strategy[1], adopted in 2023, which prioritizes increased use of renewable energy and improved energy efficiency.

2.2 The Program has been developed within a sound macroeconomic policy context. The government's policy framework is considered adequate by the Asian Infrastructure Investment Bank (AIIB), the International Monetary Fund (IMF) and the World Bank (WB), based on recent assessments confirming prudent fiscal and monetary policies, financial sector stability and ongoing reforms. Uzbekistan's economy has demonstrated robust growth, narrowing fiscal and current account deficits and strong international reserves. Fiscal policy is anchored by clear targets for deficits, debt and external borrowing, with ongoing consolidation and the phase-out of fossil fuel subsidies ensuring consistency with the energy transition. The Program's alignment with Uzbekistan's NDC and stable macroeconomic framework provides a solid foundation for policy-based financing, confirming Uzbekistan's eligibility for Climate Policy-Based Financing (CPBF) under the Bank's Operational Policy on Financing (OPF).

2.3 **Program Scope.** The Program is the first in a programmatic series of two WB-led operations. It supports the government's policy and institutional reforms by: (a) advancing sectoral measures in the energy and state-owned enterprise (SOE) sectors to improve resource and energy efficiency and strengthen resilience; (b) enhancing public administration to promote green procurement and (c) establishing clear, transparent rules for creating and trading carbon credits, alongside a robust measurement, reporting and verification (MRV) system to scale private climate finance.

2.4 The Program is AIIB's second CPBF in Uzbekistan and is essential to sustain and deepen the reforms initiated in 2024 under the first CPBF, enabling the government to meet its NDC targets and transition to a green, upper-middle-income economy by 2030. It forms a critical part of AIIB's long-term engagement to support "the Green Economy Strategy" and NDC goals. The Program ensures continuity of support in coordination with key development partners: foundational climate reforms in 2024 with the Asian Development Bank (ADB);[2] governance and sectoral deep dives under this 2025 Program to be followed in 2026 by the second operation in the series with the WB; and additional follow-on reforms proposed for 2026 with ADB to consolidate progress.[3]

[1] Government of Uzbekistan. 2023. "Uzbekistan - 2030" Strategy. https://gov.uz/en/pages/2030_strategy
[2] AIIB. Uzbekistan: Accelerating the Uzbekistan Climate Transition for Green, Inclusive, and Resilient Economic Growth (Subprogram 1).
[3] This is proposed as Subprogram 2 of the 2024 CPBF operation.

2.5 **Program Financing.** The proposed Program, supported by AIIB, is a central part of the WB's First Advancing Global Integration and Market Transition Development Policy Operation (DPO1), which targets policy reforms for Uzbekistan's green transition.[4]

2.6 DPO1 is the first in a series of two operations planned by the WB, with a financing amount of USD800 million. The WB-supported DPO consists of two complementary pillars. The first pillar focuses on market creation, global integration and private sector growth. It aims to accelerate SOE reform, establish an independent telecom regulator and reform electricity and heating tariffs to promote energy efficiency and reduce greenhouse gas (GHG) emissions, liberalize electricity markets to increase the use of renewable energy, introduce agricultural insurance, enhance competition in the cotton sector and align trade regulations with World Trade Organization (WTO) standards.

2.7 The second pillar focuses on establishing carbon crediting and MRV systems, creating a National Energy Efficiency Agency, providing incentives for rooftop solar installations, heat pumps and building retrofits, mainstreaming green public procurement and reforming labor and social services to reduce gender gaps and improve the quality of social services.

2.8 Together, these measures aim to increase competition and investment, lower emissions and protect vulnerable households during the transition. At the government's request, AIIB will provide co-financing of USD500 million exclusively for the climate-focused policy reforms as described in more detail in Section B, bringing the total DPO1 financing to USD1.3 billion. The AIIB and WB will provide separate financing (in parallel) for the agreed reform agenda. Funds will be disbursed separately under each financier's rules. The WB is the lead co-financier for this operation. As such, WB led the policy dialogue with the government on the reform agenda, provided upstream analytical support to the government, led the drafting of the policy matrix and negotiated the results to be monitored and developed follow-on technical assistance to the government. AIIB will apply its own policies and conduct due diligence for the Program but will work closely with the WB to leverage their analytical work to inform its own assessments and the financing decision. AIIB's value-add to the DPO1 is further described in section 2.26.

2.9 **Background and Development Constraints.** Uzbekistan's green transition is constrained by high climate vulnerability, heavy fossil-fuel dependence, state dominance in markets and an underdeveloped green finance ecosystem. The government's fiscal position could also become unsustainable if the public sector must shoulder large green transition costs without creating fiscal space elsewhere. Without deeper structural reforms—pricing energy correctly, crowding in private capital, strengthening competition and institutions and mainstreaming climate into public investment—growth, fiscal sustainability and resilience are at risk.

2.10 Core development constraints include:

[4] The WB's DPO consists of two pillars of reforms: (a) Pillar 1: Creating markets, advancing global integration and fostering private sector growth and jobs creation and (b) Pillar 2: Supporting green economy and social inclusion. Prior actions beyond the climate-aligned reforms include: strengthening the institutional framework in the telecoms sector, protecting low-income households from the increase in district heating tariffs, accelerating the WTO accession process and enhancing competition, and promoting social equity and protection through inclusive labor reforms and enhanced social services.

(a) **Climate vulnerability, water stress and land degradation**: Rising temperatures, droughts, floods, landslides and dust storms impose mounting human and economic costs; air pollution damages alone are estimated at 6.5% of gross domestic product (GDP) and climate damages could reduce GDP by 10% by 2050 without action. Land degradation has already cost 4% of GDP and threatens rural livelihoods. Uzbekistan is projected to be among the most water-stressed economies—climate stresses already cut agricultural output and threaten water supply, food security and grid reliability. Aging irrigation and drainage systems require approximately USD6 billion in upgrades by 2030. Low on-farm water efficiency and land degradation reduce productivity and resilience, making climate-smart agriculture, water-efficient technologies and integrated landscape management urgent priorities. Uzbekistan ranks 96th among 181 economies in the 2019 ND-GAIN index of climate vulnerability.[5] Risk transfer instruments in Uzbekistan are limited, with an insurance industry that is relatively underdeveloped.

(b) **High emission intensity and fossil fuel dependence**: Energy intensity remains elevated, and the power and heat systems are still dominated by fossil fuels. While the government advances tariff reforms and a new wholesale electricity market framework to enable private participation, implementation risks could delay renewable investment scale-up and efficiency gains if market rules, off-taker creditworthiness and regulation lag.

(c) **Distorted price signals and weak market incentives in the energy sector**: Historically low, subsidized energy tariffs have weakened the energy sector, deterring efficiency and clean-energy investment and straining public finances. Without carbon pricing or market incentives, economy-wide low-carbon investment is lower. Underfunding has left aging infrastructure—average transmission and distribution (T&D) lines are 30 years old—causing frequent outages, high losses ($\approx$ 25% of sales, $\approx$20% of generation) and low plant efficiency.

(d) **State dominance, weak competition and an underpowered private sector**: After early reforms, weak market institutions and heavy state ownership still curb competition, productivity and private investment needed for low-carbon scale-up. In 2021, 131 SOEs were natural monopolies and 107 firms were dominant (>35% market share), of which 93 (87%) were SOEs,[6] whose anti-competitive advantages reduce incentives to modernize, improve energy efficiency or adopt low-emission technologies, deterring private innovation and investment.

(e) **Limited fiscal space and public investment management constraints**: High public spending needs and exposure to SOEs limit fiscal headroom to finance the green transition. Strengthening climate-informed public investment management, leveraging public-private partnerships (PPPs) and increasing private capital mobilization are essential to prioritizing resilient, low-carbon assets and crowding in private finance, thereby reducing reliance on the budget. Additionally, removing energy subsidies and introducing carbon pricing, such as through a carbon tax, could generate fiscal space for green investments, spur the private investment needed to reach net-zero emissions and create positive behavioral incentives for the transition.

[5] As referenced in WB's Uzbekistan Second Systematic Country Diagnostic, April 2022. The ND-GAIN index summarizes the economy's vulnerability to climate change and other global challenges, in combination with its readiness to improve resilience. ND-GAIN Country Index.

[6] As cited in WB's Uzbekistan Second Systematic Country Diagnostic, April 2022. Quarterly update (Q1 2021). Government of Uzbekistan. Open Data Portal. State Register of Natural Monopolies.

(f) **Underdeveloped green finance ecosystem**: Bank lending is heavily exposed to high-emission sectors. However, the frameworks and systems that would help them gradually shift into green investments are still underdeveloped, including green taxonomy, sustainability disclosure and climate risk supervision. This limits capital reallocation toward sustainable assets and increases transition risks. Deeper capital market reforms and instruments (including insurance and disaster risk financing) are also needed to crowd in private finance for green projects.

(g) **Social inclusion, jobs and skills for a just transition**: Price reforms and sector transitions can impose short-term challenges on households and some segments of the labor force. Labor reallocation and reskilling are essential, and adaptive social protection is required to cushion vulnerable groups and sustain support for the transition.

2.11 Among other sectoral bottlenecks beyond energy, significant policy and infrastructure shifts are needed in transport to enable modal shifts, electrification and logistics efficiency, with these measures also delivering air quality and health co-benefits that strengthen the investment case. In buildings and heating—particularly the Soviet-era building stock—large efficiency and decarbonization gaps persist. In industry and mining, emissions-intensive processes require technology upgrades to remain competitive as global climate policies tighten, while climate-smart mining and green manufacturing opportunities depend on stronger enabling conditions and investment frameworks.

2.12 **Climate Change Adaptation and Mitigation.** Uzbekistan submitted its intended NDC to the United Nations Framework Convention on Climate Change (UNFCCC) on April 19, 2017, which became its first NDC upon ratifying the Paris Agreement on Oct. 2, 2018. The NDC was updated on Oct. 31, 2021, and includes an adaptation section. However, Uzbekistan has not submitted a separate national adaptation plan or a long-term low-emission development strategy, though the updated NDC notes a national adaptation plan was being prepared with support from the United Nations Development Programme (UNDP) and the Green Climate Fund (GCF). Uzbekistan's first national communication to the UNFCCC in 2001 included a technology needs assessment that has not been updated. Uzbekistan is a Party to the Convention on Biological Diversity but has not yet submitted a national biodiversity strategy and action plan under the Kunming-Montreal Framework. Consequently, the updated NDC should be considered the sole recognized climate action plan for assessing Uzbekistan’s climate policy commitments under the policy-based financing. Uzbekistan has also submitted its first Biennial Transparency Report under the Paris Agreement, documenting progress toward the achievement of its NDC.

2.13 Uzbekistan’s updated NDC pledges a 35% reduction in GHG emissions per unit of GDP by 2030 relative to 2010,[7] with a planned NDC 3.0 before the 30th United Nations Conference of the Parties (COP30) to raise the target to 40%–45%. With the planned NDC3.0, the government aims for renewable sources to supply 54% of total electricity generation by 2030. On adaptation, the Ministry of Ecology, Environmental Protection and Climate Change is expected to finalize National Adaptation Plans (NAPs) for five sectors, currently under inter-ministerial review, before COP30 and is preparing a national biodiversity strategy with UNDP

[7] Government of Uzbekistan. 2021. Updated Nationally Determined Contribution.

and United Nations Environment Programme (UNEP) support. Uzbekistan's flagship initiative, Green University, serves as a research hub to advance these efforts.

2.14 Uzbekistan is building a comprehensive carbon-trading framework intended to support a national Emissions Trading System (ETS) and potential regional expansion across Central Asia. Concurrently, and to prepare for the Carbon Border Adjustment Mechanism (CBAM) of the European Union (EU), the government is designing a carbon tax with support from Agence Française de Développement (AFD) to consolidate existing environmental penalties. This effort also creates an opportunity to further strengthen Uzbekistan's monitoring, reporting and verification (MRV) system. Over the past 20 years, Uzbekistan has regularly submitted National Inventory Reports and Biennial Transparency Reports to the UNFCCC, which are prepared by Hydromet. Data is cross-checked across ministries and the Statistical Agency, which provides open-source fuel-use data convertible to emissions.

2.15 Natural gas serves 80% of Uzbekistan's energy needs. Although recent years saw net imports of gas, proven domestic reserves remain significant. Private financing for energy infrastructure is limited, and renewable generation is low despite strong solar and wind potential. Climate change is worsening water scarcity and land degradation, threatening food security. Flows in the Amu Darya and Syr Darya are declining, and in Sukhandarya the Tupalang reservoir holds 40%–50% less water than last year, causing severe crop losses across five to six districts.

2.16 The Biennial Transparent Report and the national inventory submitted to the UNFCCC in 2024 indicate that Uzbekistan is well on track to meet the commitment contained in the updated NDC. By 2022, the carbon emissions intensity of GDP had been reduced by 40%[8] compared to 2010, while the overall energy efficiency of GDP had increased by 75%, against a target of 100% by 2030. Achieving this level of ambition will require substantial policy adjustments, underpinned by strong technical assistance and international partnerships to support a transition of this scale.

2.17 **Government Strategy and Program.** The government views climate objectives as integral to market liberalization and is leveraging economic opening to modernize the energy sector, mobilize green investment, align with global climate and sustainability standards and strengthen resilience.

2.18 The government's main green strategies include the updated 2021 NDC and the Green Economy Strategy (2019-2030). The updated 2021 NDC targets a 35% reduction in GHG intensity (per unit of GDP) by 2030 versus 2010. This will be pursued through higher energy efficiency, greater renewable energy uptake, clean technologies, decarbonization of key sectors and the implementation of economic and market mechanisms, such as carbon or GHG taxes. The updated NDC also prioritizes resilience—reducing vulnerabilities, particularly in agriculture, water and forestry. The Green Economy Strategy emphasizes: (a) energy efficiency in core sectors, (b) diversified energy consumption and development of renewable energy sources, (c) climate mitigation and adaptation, (d) efficient natural resource use and

[8] UNFCCC. 2024. Biennial Report on Transparency of the Republic of Uzbekistan Under the Un Framework Convention on Climate Change. Table 2.6, Decrease of GDP carbon intensity, % to 2010, 2022: -40.6%.

preservation of natural ecosystems and (e) development of financial and non-financial support mechanisms for a green economy.

2.19 The government is translating strategy into action through:

- *Economic and market mechanisms*: In early 2025, the government launched a comprehensive State Program focused on environmental protection and green economy that introduces carbon credit trading and a national MRV/transparency framework.
- *Public administration and governance*: Reforms to boost climate-aligned public procurement, integrate climate assessments into public investment, disclose climate fiscal risks and amend tax and budget laws to embed sustainability.
- *Sectoral measures*: Fuel and energy tariff reforms to phase out subsidies, improve energy sector financing, encourage conservation and attract private investment; creation of an energy services market to deliver efficiency solutions to industries and households.
- *SOE reforms*: Reducing excessive state presence and strengthening market institutions is essential. Reforming SOEs will cut inefficiencies, remove market distortions and enable private sector leadership in renewable expansion, decarbonization, innovation and green technology development.

2.20 Ongoing reforms are backed by green economy projects and technical assistance from development partners, including the WB, ADB, UNDP, AFD, EU, GIZ, European Bank for Reconstruction and Development (EBRD) and other bilateral financiers. In 2024, AIIB joined this group, providing CPBF and increasing its policy engagement—especially in the energy, transport and water sectors.

2.21 In 2024 AIIB approved its first CPBF for Uzbekistan, in partnership with ADB, to: (a) strengthen institutional frameworks, planning, budgeting and monitoring for the climate transition; (b) bolster climate resilience in water and land management, social protection and SOE climate/sustainability risk disclosure and (c) accelerate the shift to a low carbon economy, focusing on transport and energy. Box 1 summarizes the implementation progress to date.

Box 1. Progress in Implementing the Accelerating the Uzbekistan Climate Transition Green Inclusive and Resilient Economic Growth Program with ADB

In 2024, the Government of Uzbekistan established a Presidential Climate Council, chaired by the President and including all ministers. It meets once a year with the President and twice more as a working group (typically before COP). The National Centre for Climate Change (NCCC), created by Presidential Decree No.106 under the Ministry of Ecology, Environmental Protection and Climate Change, serves as the Council's secretariat, handling data collection, agenda preparation, policy, strategy, monitoring and evaluation and acting as the national focal point to the UNFCCC, GCF and other international bodies. Decree No. 106 also created "ecological diplomacy" units in each ministry as focal points for the NCCC.

A comprehensive Climate Change Strategy (mitigation and adaptation) is being prepared under the NCCC. The draft is currently undergoing interministerial review (2–4 months) before submission to the Cabinet of Ministers. A gender action plan has been adopted; its implementation is coordinated by a focal point in the Ministry of Ecology, Environmental Protection and Climate Change's "unit of green transition" and a social specialist responsible for gender screening in projects.

Green budgeting (expenditure tagging) is in place, and program budgeting has started in the Ministry of Agriculture with a gradual roll-out to other ministries. Further progress is expected under Subprogram 2 of the Accelerating Climate Transition Program targeted for Q3 2026.

To implement the 2024 national water strategy, priorities include modernizing over 1,600 pumping stations (expected energy savings of 50%–70%), building reservoirs, promoting drip irrigation via financial incentives, concreting main and secondary canals and constructing dams to capture floodwater and reduce low-flow risks. AIIB and ADB are contemplating technical assistance to support reforms under Subprogram 2, focusing on strengthening water management and agricultural productivity.

Under SOE reforms, Uzbekistan is integrating environmental, social and governance (ESG) standards into privatization strategies, especially for metallurgy and energy enterprises. A state program requires ESG implementation for large companies irrespective of privatization terms, and some major state-owned firms in metallurgy, energy and oil and gas have already obtained or are in the process of obtaining ESG ratings. The Ministry of Economy and Finance monitors ESG and International Financial Reporting Standards (IFRS) adoption, and the State Assets Management Agency develops modernization plans incorporating environmental requirements. Company boards oversee implementation. Leading firms in energy, metallurgy and banking are beginning to publish IFRS statements. ESG and sustainability criteria are increasingly embedded in privatizations and asset sales, with KPMG providing advisory support.

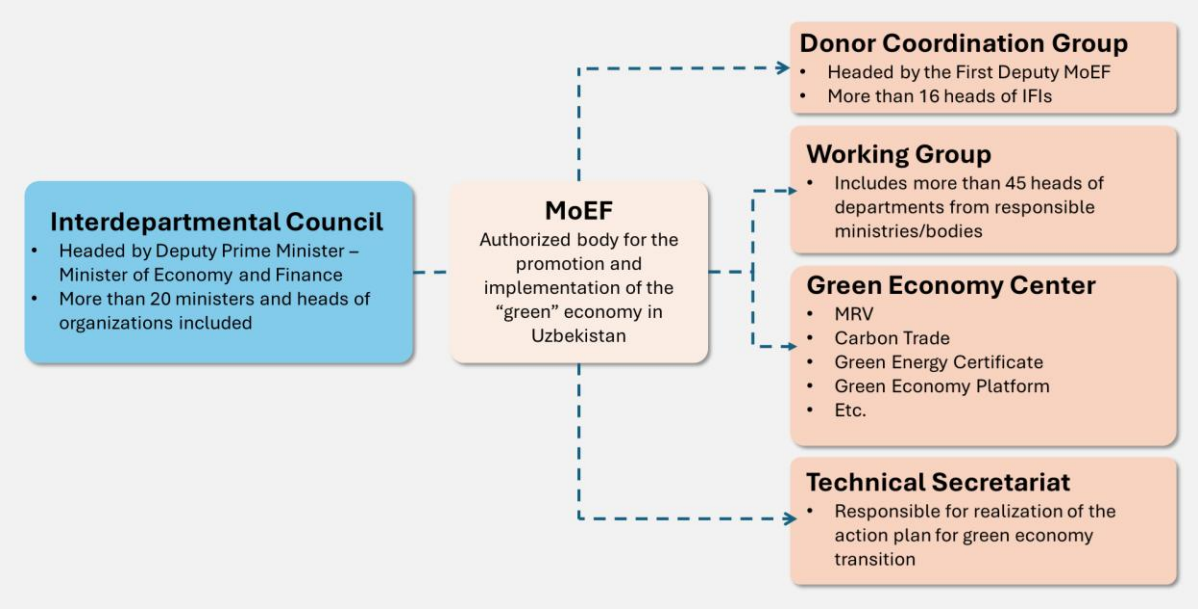
Electric vehicle (EV) infrastructure deployment is progressing, driven by municipalities and private firms: 1,500 public charging stations are operational; Tashkent runs 320 e-buses (200 more expected by year-end), Samarkand operates 100 with plans for 300. Nationally, there are 420 e-buses; adding 200 would raise the electric share of public buses from ~16% to ~25%. Other cities (Namangan, Nukus, Navoy) plan procurements. A green urban transport corridor in Tashkent, with dedicated bus lanes and upgraded stops, is near completion. EV uptake is supported by favorable tax policies, and gender barriers for women bus drivers have been removed. Research and development (R&D) is emerging but lacks a national strategy. Key challenges include the absence of unified charging standards, potential grid constraints and limited battery recycling solutions. Policy coordination and donor support continue.

Following the 2024 Law on Rational Use of Energy, Increasing Energy Efficiency and Energy Conservation, the National Energy Efficiency Agency is setting rules for energy audits and auditor qualification and establishing a sensor-based data center to monitor retrofitted buildings. The Agency is working with international experts to strengthen procurement and construction standards. Ongoing retrofits in public buildings target ~30% energy savings via insulation, window replacement, heat pumps and solar panels.

Preparing for the EU CBAM, Uzbekistan—supported by AFD—is designing a carbon tax to consolidate environmental penalties, with the longer-term aim of establishing a national Emissions Trading System.

2.22 Figure 1 shows the government's institutional framework to implement its green economy and climate transition goals. The Ministry of Economy and Finance (MOEF) is central to the institutional framework. Overall, Uzbekistan has made significant strides at the policy level, thanks to the government's various policies and strategies. These policies and strategies seek to mainstream green economy and climate objectives across the government's operations. Responsibility over parts of the green economy and climate policy have already been assigned to ministries and agencies. A key institutional gap that remains is the need to strengthen the technical capacity of ministries and agencies to carry out the policies.

Figure 1. Institutional Framework for Climate Transition



Source: Agency for Strategic Reforms of the Republic of Uzbekistan

2.23 **Strategic Fit for AIIB.** The Program is aligned with AIIB's mission of fostering sustainable economic development—which is reinforced in the Bank's Corporate Strategy—and meets the eligibility criteria for CPBF. The Program contributes to the Bank's climate financing target and is aligned with its thematic priority on Green Infrastructure. The Program's proposed prior actions are designed to help the government achieve its climate and green economy goals by embedding economic and market mechanisms (carbon credit system and tariff reforms) and governance reforms (green public procurement, SOE reform to improve resource and energy efficiency) to reduce or avoid GHG emissions and enhance climate resilience. The establishment of a carbon credit system will also enable private capital mobilization by creating a financial incentive through carbon credits that can be sold in the market. Similarly, the tariff reform in the heating sector, which aims to reflect true costs and promote energy efficiency, as well as the SOE reforms that aim to promote competitive neutrality, provide an enabling environment for private investments by creating a more financially attractive market for investors.

2.24 **Paris Alignment and Climate Finance.** The Program is Paris-aligned from a mitigation (BB1) standpoint. The prior actions financed under the Program contribute to Uzbekistan's NDC and long term decarbonization pathway in line with the mitigation goals of the Paris Agreement, either directly through carbon trading, fossil fuel subsidy reforms, modernizing energy markets for energy efficiency and providing financial incentives for renewable equipment and building retrofits, or indirectly by creating an enabling environment through SOE reforms and green public procurement. The Program is also considered to be Paris aligned from an adaptation (BB2) perspective, with no significant impact envisaged from climate change to the anticipated reform results. The prior actions financed are also considered to be Paris Aligned by the WB, noting that AIIB and the WB use the same joint multilateral development bank (MDB) methodology for conducting Paris Alignment assessment.[9]

[9] Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations - Policy-based Lending Operations for assessment.

2.25 Contributing to AIIB's 50% climate finance target in its Corporate Strategy and applying the joint MDB climate finance tracking methodology, USD357 million or 71% of AIIB's financing corresponding to the following policy prior actions can be counted as climate mitigation finance:

(a) *Prior Action 1*: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions.
(b) *Prior Action 2:* Moving toward a wholesale market in electricity and promoting renewable energy generation
(c) *Prior Action 4*: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits.
(d) *Prior Action 5:* Boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency.
(e) *Prior Action 6:* Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by the government.

2.26 **Value Addition by AIIB.** The Program will anchor a sustained and structured policy dialogue between AIIB and the government, building on the 2024 CPBF operation and proposed follow-on operations in 2026 (Figure 2). By providing sequenced, continuous CPBF support across carefully selected thematic and sectoral priorities where it has significant expertise (e.g., energy, transport and water), AIIB helped maintain reform momentum, ensure policy coherence and embed institutional learning, thereby deepening impact over time. This continuity consolidates foundations laid under prior operations, reduces implementation risk and accelerates the achievement of measurable outcomes through sustained engagement, clear reform milestones and alignment with government strategies. In particular, AIIB-supported policy actions in the energy and SOE sectors will improve market discipline, governance and transparency, creating a more predictable environment for private investment and catalyzing private sector-led infrastructure development. AIIB's practical experience in climate-related sovereign and non-sovereign financing in Uzbekistan—combined with active policy dialogue and joint engagement with the WB and the government—has already helped enhance climate-sensitive reforms and increased the Program's climate co-benefits. These lessons are being integrated into the Program's design to ensure reforms are effective and deliver stronger climate outcomes.

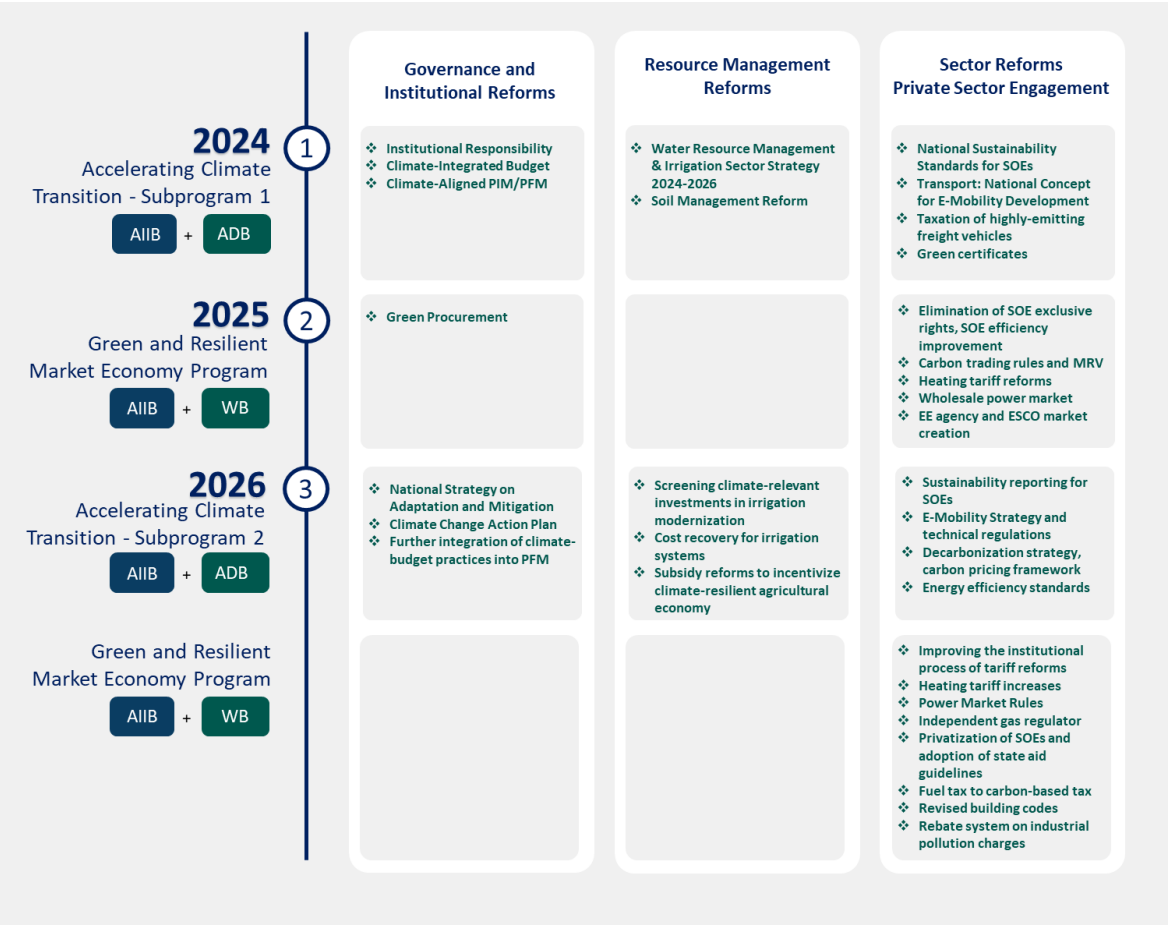
2.27 For this Program, AIIB assembled a multidisciplinary, cross-departmental Project Team (PT) to provide upstream policy support. The PT has closely engaged with the government and the WB on climate policy issues across the energy, transport and water sectors, bringing decades of combined experience in sector governance and reform, climate adaptation and mitigation, climate finance, private capital mobilization and green infrastructure development. This collaboration has informed the government's approach to sector policy-making and supported a robust assessment of the feasibility of the Program's intended outcomes. Crucially, the PT's dialogue with the government and implementing entities has also helped identify concrete downstream investment opportunities for AIIB in areas such as distributed energy, energy efficiency, electric mobility and gas abatement (Section 2.37 has more details). Sustained progress on climate objectives requires tangible on-the-ground delivery. Therefore, supporting Uzbekistan through targeted physical investments alongside policy measures is critical to enable the effective and timely implementation of climate reforms,

accelerate decarbonization and resilience outcomes, crowd in private capital and improve the capacity of the government's implementing agencies.

2.28 AIIB also brings into this operation its key learnings and insights from other CPBF operations across its members, enabling international knowledge exchange. This includes the Bank's ongoing experience supporting the Government of Brazil in establishing enabling policy reforms for a carbon market, lessons that will inform Uzbekistan's carbon and market-based climate measures.

2.29 For the second Program in the series, AIIB will, as with the CPBF program with ADB, provide targeted upstream policy advice, complementing the WB's technical assistance to sharpen the policy matrix and establish measurable goals.

Figure 2. AIIB's Series of CPBF Operations in Uzbekistan



2.30 **Value Addition to AIIB.** This programmatic CPBF establishes a strategic entry point for the AIIB's sustained and longer-term upstream policy dialogue with the Government of Uzbekistan, informing updates to the Bank's Multi-Year Rolling Investment Pipeline (MYRP) and linking policy reform to downstream financing and private capital pathways. Collaboration with the WB also strengthens policy coordination and brings global experience in governance reforms, bolstering AIIB's institutional capacity and its relationship with the government.

2.31 Together with other CPBF operations, the Program sharpens AIIB's emerging niche capabilities—supporting carbon market frameworks, mobilizing green finance, mainstreaming energy efficiency and catalyzing private renewable investment. These strengths position AIIB as a preferred knowledge and implementation partner in these areas.

2.32 **Lessons Learned.** The AIIB has an extensive sovereign and non-sovereign portfolio and pipeline in Uzbekistan. The knowledge and experience gained from these projects—and from the dialogues with government stakeholders—have deepened the Bank's understanding of Uzbekistan's development landscape, the sectoral challenges and the institutional dynamics and capacities.

2.33 This operation is one of seven CPBF operations of the Bank in different stages of readiness since the instrument's approval in June 2024: Bangladesh (two operations); Egypt (one operation); Uzbekistan and Brazil (pipeline); and Kazakhstan (pipeline). A number of key insights are emerging from the ongoing CPBF experiences of the Bank. One of these insights is that the robustness of policy reforms depends on how well they are rooted in local contexts and supported by context-specific evidence. The strength and relevance of CPBFs are closely tied to analytical underpinnings that guide the selection of policy actions and priorities and help bring different stakeholders (such as different ministries and departments) on board to support effective delivery. The Bank has drawn on various analytics and diagnostics in close collaboration with other multilateral partners, such as the WB's 2023 Country Climate and Development Report (CCDR) and 2022 Systematic Country Diagnostics. The Bank has also leveraged the government's strategic plans to ensure relevance and alignment with its priorities.

2.34 In addition, the ownership and commitment of the member are key to effective delivery and reduce the risk of policy reversals. For this operation, the government has led the development of its priority policy reforms and ensured coordination between AIIB and WB for alignment.

2.35 Finally, advancing climate goals requires sustained upstream support for policy and institutional reforms that enable unlocking much-needed downstream investments. For instance, the energy cost recovery reforms (Prior Action 1), the transition to wholesale electricity market (Prior Action 2), SOE reforms (Prior Action 3), the rules for trade in carbon credits (Prior Action 4) and the fiscal incentives for energy efficiency (Prior Action 6) will enable the mobilization of private capital that will expand investments in climate and green projects. This creates an impactful CPBF that unlocks private capital to flow into climate and other development priorities.

B. Policy Actions, Results and Sustainability

2.36 **The Program comprises seven prior actions in support of the government's climate goals and transition to a green economy.** The prior actions under the Program are supportive of and consistent with the scaling of energy efficiency improvements and renewable energy generation and utilization; the establishment of carbon credit rules to incentivize investments in climate mitigation; and climate-sensitive public procurement to allow the government to use its considerable purchasing power to advance its climate and environmental goals. The analytical underpinnings of the prior actions are in Annex 4.

2.36.1 **Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions.** To reduce GHG emissions through energy efficiency measures, and at the same time, increase private sector participation in the sector, the government's local regional councils, since Oct. 31, 2024, have raised district heating tariffs for households, businesses and public institutions that aggregate to weighted average increases of 36%, 92% and 136%, respectively, for networks in the six urban areas that supply over 85% of customers nationwide through Resolutions dated Oct. 31, 2024; Nov. 30, 2024; Dec. 2, 2024; Jan. 6, 2025; Feb. 11, 2025; and Aug. 18, 2025, as interim step to achieve full cost recovery in the heating sector by 2030.

(a) **Rationale:** When tariffs fall short of cost recovery, consumers lack incentives to save energy or invest in efficiency, contributing to Uzbekistan's high energy intensity and large heating subsidies. Gradually aligning tariffs with actual costs is therefore essential to signal conservation while protecting vulnerable households.[10] As of May 2025, district heating—serving 38% of multi-apartment buildings—covered only 29% of its costs, compared with the cost-recovery level of 93% for electricity and 87% for natural gas.

(b) **Significance of the Prior Action:** The prior action sends price signals that encourage energy efficiency, which lowers overall energy demand and therefore, the associated GHG emissions. It also enables cost recovery for heat generation and T&D. Cost-reflective pricing improves financial viability, attracts private investment and reduces the sector's dependence on government subsidies.

(c) **Expected Results:** Raising heating tariffs toward cost recovery is expected to help reduce GHG emissions through energy efficiency measures and enable greater private sector participation. The reforms are expected to raise the weighted average cost recovery of district heating tariffs across all consumer groups from 29% in October 2024 to 45% in 2028. Energy efficiency of heating energy use is expected to improve, reducing air pollution and GHG emissions. District heating subsidies are anticipated to decline, with allocations of UZS4.5 trillion (USD358 million) in 2024 to be gradually phased out by 2030 to increase fiscal space.[11,12]

(d) **Indicative Trigger for the second Program:** To reduce GHG emissions through energy efficiency measures and increase private sector participation, the government will: (1) improve the institutional process of tariff setting by establishing an Interdepartmental Commission under the Cabinet of Ministers that will take over

[10] To protect low-income households from the increase in district heating tariffs, the government provides lump sum compensation to ease the financial burden of energy use as well as targeted social assistance. In 2024, the government also introduced lifeline tariffs to protect low-income households from tariff increases for electricity and natural gas, ensuring that energy services remain affordable. For the protection of the vulnerable population, the WB is also supporting the following prior action under DPO1: a Resolution of the Cabinet of Ministers No. 204 dated April 16, 2024 to increase compensation payments for electricity, heating and gas consumers, such that annual cash transfers increase from UZS270,000 per family to UZS1,000,000. To achieve this, the government has created a low-income family registry primarily for beneficiaries of the tariff reform compensation in 2024. Previously, only single registry and vulnerable families selected from *mahalla* (traditional neighborhood-based community organization that serve as a local self-governing body) were eligible for the compensation. From 2025 onward, compensation due to the increase in heating tariffs (among other energy tariff increases) will cover more poor families. The compensation is calibrated to maintain, rather than increase, basic energy consumption. Therefore, it is not expected to undermine the emissions reduction objectives of the tariff reforms. This directly supports the execution of the prior action, with the intent of reducing the GHG emissions. The compensation payment is designed not only to shield the poorest households from the immediate financial impacts of tariff reforms, but also to enhance their resilience to climate-related vulnerabilities as low-income households are often disproportionately affected by climate hazards.

[11] UZ Daily. 2024. Uzbekistan to Allocate 12.3 Trillion Soums for Gas and Electricity Subsidies in 2025. Nov. 12.

[12] To compensate the most vulnerable customers, households included in the "Registry of Poor Families" are newly eligible for cash transfers.

the authority to set district heating tariffs from local governments, through a Resolution of the Cabinet of Ministers and (2) further increase heating tariffs for households, businesses and public institutions. These measures are expected to improve the governance of the district heating sector and transparency of the financial viability of district heating supply, thereby contributing to the sustainability of the cost recovery reforms.

2.33.2. **Prior Action 2: Moving towards a wholesale market in electricity and promoting renewable energy generation.** To accelerate the liberalization of electricity markets and promote renewable energy generation, the government has approved amendments to Presidential Decree No. 166 dated Sep. 28, 2023, through Presidential Resolution No. 152 dated Aug. 29, 2025, which, inter alia, opens the electricity distribution sector for private sector participation and enables independent renewable power producers to sell electricity directly to consumers. The amendments: (a) separate electricity distribution network operation and retail functions; (b) open the operation of distribution networks, currently operated by “Regional Electric Power Networks” Joint Stock Company (JSC), to private enterprises; (c) mandate the newly created “Energosavdo” branch of "Regional Electric Power Networks" JSC to become the retail electricity provider to all customers that cannot or choose not to buy electricity directly from the wholesale market and (d) allow independent renewable power producers to sell electricity to the newly created central buyer, “Uzenergosotish" JSC, or directly to eligible consumers.

(a) **Rationale:** Uzbekistan’s power sector suffers from high losses (estimated at 16% in 2023), a large share of fossil fuel in power generation (90% in 2023) and remains SOE-dominated. Previously, Uzbekistan had operated a centrally planned and vertically integrated energy system. As part of the economy’s market reforms, the government has, in recent years, unbundled the vertically integrated power sector SOE, “Uzbekenergo” JSC, into separate entities for generation (“Thermal Power Plants” JSC and “Uzbekhydroenergo” JSC), transmission (“National Electric Grids of Uzbekistan” JSC or NEGU) and distribution (“Regional Electric Power Networks” JSC). Currently, NEGU, the transmission system operator, is also the off-taker under renewable energy power purchase agreements (PPAs). However, this arrangement is not consistent with the government’s objective of creating a liberalized wholesale electricity market. NEGU cannot undertake this dual role because it will be unable to guarantee non-discriminatory access to third parties, as it also acts as a market participant, being a buyer and seller of electricity. Therefore, renewable energy PPAs need a legally authorized, credible off-taker to serve as a market participant in the newly created wholesale electricity market. In the retail market, the separation of network operation and retail sales will enable private sector participation in network investment.

(b) **Significance of the Prior Action:** The prior action creates the market and institutional conditions that make it worthwhile for private renewable energy producers to participate and scale investment. It therefore helps expand renewable energy generation and reduce some fossil fuel-based generation. This helps to directly lower GHG emissions from the energy sector. The prior action allows independent power producers (IPPs) to sell to the new wholesale buyer, "Uzenergosotish" JSC, or directly to eligible consumers. This provides greater

flexibility in commercial arrangements and improves the financial viability and bankability of renewable energy projects, encouraging greater investment in renewable energy generation. Delegating the servicing of distribution networks to private firms would also improve efficiency and service quality. Finally, the sale of retail electricity to end consumers through "Energosavdo" would ensure that electricity reaches end users reliably by balancing electricity supply and demand. "Energosavdo" can incentivize renewable energy investments because it would provide greater certainty that the renewable energy produced by IPPs will be bought, even if generation is variable or intermittent (which is typical for renewables like solar or wind). A typical barrier to investment in renewable energy is uncertainty over who will buy the generated power, which adversely impacts the bankability of projects.

(c) **Expected Results:** The reforms are anticipated to improve the enabling conditions for the expansion of renewable power generation through facilitating grid investments and enhancing private investment. By 2030, the goal is to raise installed capacity of renewables to 25 gigawatts to meet growing demand. Consequently, the proportion of customers served by privately operated electricity distribution networks is projected to increase from zero to 15% by 2028.

(d) **Indicative Triggers for the second Program:** *(1) Indicative Trigger 1:* To accelerate the liberalization of electricity markets to promote renewable energy generation, the government will issue Market Rules in the energy market to establish a mechanism enabling the Central Buyer model by defining clear rights, obligations and a streamlined process for licensing and data exchange among market players, through a Resolution of the Cabinet of Ministers; *(2) Indicative Trigger 2:* To reduce GHG emissions through energy efficiency measures and increase private sector participation, the government will establish an independent natural gas regulator, through a Resolution of the Cabinet of Ministers.[13]

2.36.2 **Prior Action 3: Supporting private investment by enhancing SOE reforms, competition and leveling the playing field.** To accelerate SOE reforms, reduce the footprint of the state and strengthen the regulatory environment and competitive markets, the government has: (a) adopted Presidential Resolution No. 303 dated Aug. 27, 2024 to create the National Investment Fund (NIF) to manage state assets effectively and (b) contracted an international asset management company for the management and completion of the initial public offering (IPO) of the NIF through the Investment Management Agreement (IMA) signed in January 2025.

(a) **Rationale:** Reforming SOEs is not just an economic and governance reform, but also a climate reform. In Uzbekistan, over 2,000 SOEs remain prevalent in the economy. Approximately 80%[14] of these SOEs operate in competitive sectors where the private sector can function more efficiently under open competition and a level playing field. SOEs dominate power, gas, water, transport and industry, which are the highest-emitting and most resource-intensive sectors. Without reform,

[13] An independent natural gas regulator can play a key role in GHG reduction by setting technical rules/standards and tariffs. For example, the regulator can approve tariffs that encourage efficiency and discourage wasteful gas use. It can set standards regarding maximum percentage leakage/loss.

[14] This figure is sourced from the WB Country Economic Memorandum (2024), utilizing data from the 2019 WB Business of the State (BOS) database. Since 2019, the government has implemented substantial measures to address this bottleneck and has set an ambitious goal of reducing the number of state-owned enterprises sixfold by 2030.

SOEs will continue to operate inefficiently, underinvest in maintenance and continue using high-emission technologies. Progress in the privatization of SOEs has proceeded slowly, due in part to the limited market capacity to absorb state assets at expected values. SOEs continue to benefit from significant advantages, including tax benefits and favorable lending and procurement. This undermines the level playing field needed for faster private sector investment, productivity gains and jobs creation, thereby hindering economic growth. The government's implicit and explicit subsidies to SOEs are also substantial. The government's direct budget subsidies alone amounted to about 1% of GDP in 2020.

However, even with fiscal support from the government, SOEs have not been able to invest sufficiently to maintain their systems properly. As a result, there are substantial technical losses—like wasted natural gas, water, heating and electricity—that are higher in Uzbekistan than in other economies such as Bulgaria, Pakistan, Romania and Tajikistan. This has adverse implications from the climate perspective as well as for sector revenues. For example, natural gas releases methane, a GHG, when leaked or burned. For Uzbekistan, the estimated natural gas loss is approximately 1.2% of GDP. About 35% of the supplied drinking water is also lost. Electricity losses during T&D are about 20%.[15] These losses represent higher emissions. The financial losses also mean that these SOEs will have limited financial capability to respond to climate events and stresses, thus reducing their resilience.

Since 2019, Uzbekistan has implemented multiple measures to create the conditions for reducing state presence in the economy and level the playing field.[16] These changes have set the necessary legal preconditions. To further the reforms, Uzbekistan is now implementing targeted actions to enable more privatization transactions. With the objective of divesting from SOEs, the government has established the NIF, aggregating stakes in 18 SOEs including power plants, a bank, an airport and the national airline, among others. The NIF is intended to be placed in the stock market through an IPO. This would then be followed by sales of further stakes in individual assets in the market, post further restructuring. This approach aims to attract institutional investors to participate in the privatization process; lift the shareholder value; support the implementation of corporate governance standards; transition to IFRS and advance the implementation of environment and social standards in NIF's assets. It may attract ESG-minded investors who push for greener technologies and efficiency improvements, supporting climate mitigation.

(b) **Significance of the Prior Action:** By reforming the SOE sector through professionalizing SOE oversight via the NIF—and eventually divesting from SOEs—governance and climate goal alignment can be improved. The prior action mandates the NIF to hold stakes in the SOEs and use professional and international asset management[17] to drive change and modernize the SOEs. This

[15] WB. 2022. Toward a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan. April 1.

[16] This includes the creation in 2019 of the State Assets Management Agency (SAMA) to prepare SOEs for privatization, the introduction of the "Rule of 5" in 2020 to limit the creation of new SOEs, the 2023 Competition Law, the 2023 Law on State Property Management, and the 2024 Privatization Law, standardizing privatization processes and enhancing transparency and governance.

[17] The Franklin Templeton Asset Management Foreign Enterprise Limited Liability Company has been appointed as the Trustee and Manager of NIF, following the signing of an Investment Management Agreement with the Ministry of Economy and Finance of Uzbekistan. National Investment Fund of the Republic of Uzbekistan. Your Strategic Partners; and National Investment Fund of the Republic of Uzbekistan. Corporate Governance. Management.

would include the elimination of operational inefficiencies that drive GHG emissions. The NIF will also integrate ESG standards[18] in its investment assets to attract major international institutional investors.[19] Based on the NIF's charter,[20] the ESG standards will be in accordance with the requirements of the Organization for Economic Co-operation and Development (OECD). The OECD's ESG guidelines incorporate climate goals.[21]

(c) **Expected Results:** The reforms are anticipated to reduce the state presence in the economy and strengthen competitive neutrality through the IPO of the NIF comprising public stakes between 20% and 40% in at least 15 SOEs and the establishment of a publicly accessible state aid registry.

(d) **Indicative Trigger for the second Program:** To accelerate SOE reforms, reduce the footprint of the state and strengthen the regulatory environment and competitive markets, the government will launch the public auction and/or complete the privatization through direct sale in line with the Privatization Law of at least 3 large SOEs, identified in the privatization programs listed in Appendix 1 of Presidential Resolution No. 145 dated April 21, 2025 and Appendix 1 of Presidential Resolution No. 163 dated April 19, 2024.

2.36.3 **Prior Action 4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits.** To incentivize GHG reductions, the government has adopted: (a) Presidential Decree No. 110 dated July 7, 2025, to set clear and transparent rules for the creation and trade in carbon credits and (b) Resolution of the Cabinet of Ministers No. 800 dated Nov. 30, 2024 to establish an MRV system for GHG emissions reduction in line with the NDC.

(a) **Rationale:** Carbon credits are certified GHG emissions that can be sold at international carbon markets. Since they can be sold, they provide a financial incentive to invest in climate mitigation projects. Additional carbon credit revenues can be derived from trading with the voluntary market and the Paris Agreement compliance market (however, trading in the compliance market in most cases would not count toward Uzbekistan's NDCs). A regulatory framework is needed to authorize the trade in carbon credits and to ensure the environmental integrity of carbon crediting initiatives. The prior action fills this regulatory gap.

(b) **Significance of the Prior Action:** The financial incentive created by carbon credits creates shifts in investments toward low-carbon alternatives and would thus help Uzbekistan in reducing carbon emissions at scale. The MRV system paves the way for broader engagement in global carbon trading. Overall, the new regulatory framework gives confidence to market participants on this new revenue source. Standards are stipulated for project registration and credit issuance[22] and for ledger records and auditing. High-integrity carbon markets also require a robust measurement system, which is provided by the Resolution of the Cabinet of Ministers No. 800.

[18] NIF. 2025. Charter.
[19] The Tashkent Times. 2024. President Signs Decree Creating Uzbekistan National Investment Fund. Aug. 28.
[20] Footnote 17.
[21] OECD. 2023. OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.
[22] Provided for under Cabinet Resolution No. 117 dated March 7, 2024, and the Law on Limiting GHG Emissions No. 1073 approved by the Senate on April 29, 2025.

(c) **Expected Results:** The adoption of rules for a credible system for generating carbon credits is expected to result in additional GHG reductions via a well-functioning governance framework for carbon crediting. Together with other supported measures, this is expected to lead to more private capital mobilization into climate mitigation projects. In turn, this is anticipated to result in a reduction or avoidance of total GHG emissions through projects registered with the regulatory body for carbon credit transactions, encompassing both voluntary markets and Paris Agreement compliance markets. Carbon-based fuel pricing will also reduce GHG emissions when it becomes effective later in the program, contributing to overall GHG reduction target of 25 million tons of carbon dioxide equivalent ($mtCO_2eq$) by the end of 2028. The measure can also provide incentives for emission reductions in activities without additional direct financial benefits, in particular the reduction of methane emissions in natural gas extraction and distribution.

(d) **Indicative Triggers for the second Program:** *(1) Indicative Trigger 1:* To incentivize GHG reductions, the government will upgrade its fuel tax system into a carbon-based tax that will apply to selected energy intensive industries at a level that incentivizes energy efficiency and emissions reduction through a Resolution of the Cabinet of Ministers and *(2) Indicative Trigger 2:* To incentivize GHG reductions, the government will introduce fiscal measures to discourage the use of low-grade and polluting motor gasoline (AI-80) with the aim of phasing out the fuel by 2028, through a Resolution of the Cabinet of Ministers.

2.36.4 **Prior Action 5: Boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency.** To boost energy efficiency, the government has adopted: (a) Presidential Decree No. 63 dated March 27, 2025 to establish the National Energy Efficiency Agency (NEEA) with a clear mandate to implement a unified state policy for energy efficiency, regulate incentive programs and promote energy-saving initiatives to accelerate investment and encourage private capital and (b) Resolution of the Cabinet of Ministers No. 292 dated 07 May 2025 to establish a work program for 2025 and budget to initiate NEEA's activities. The Resolution also details the agency's near-term activities, including targets, policies and financing instruments.

(a) **Rationale:** On March 11, 2025, Presidential Decree No.100 ("On Measures for the Radical Reform of the Heating Energy Supply Sector for Residential Buildings, Structures, and Facilities, as well as Increasing the Energy Efficiency of Buildings") was approved, which calls for the acceleration of reforms and investments for energy efficiency across the economy. To support this objective, a centralized coordination and implementation body, such as an energy efficiency agency, is needed.[23] Such an agency would ensure the coordination of energy efficiency programs, sector regulations, subsidies and donor initiatives across sectors and regions. The prior action fulfills this need for such an agency.

(b) **Significance of the Prior Action:** Without a dedicated agency like NEEA, Presidential Decree No. 100's objectives would lack an institutional delivery mechanism to be implemented. NEEA will provide dedicated institutional support to translate Presidential Decree No. 100's policy vision into action. The NEEA will

[23] Semikolenova, Y., Sharabaroff, A. and Stuggins, G. 2013. Energy Efficiency: Lessons Learned from Success Stories. WB.

lead the implementation of an accelerated energy efficiency program aligned with international best practices and foster the development of a market for energy services companies (ESCOs). The prior action also ensures that NEEA is provided budget to kick-start its activities in 2025. One of NEEA's key tasks—creating a market for ESCOs—will ultimately help drive large-scale energy efficiency improvements, as this will turn energy savings as a service and an investable business for the private sector.

(c) **Expected Results:** The reforms are anticipated to enhance cross-sectoral coordination, implement energy efficiency reforms and support GHG emissions reductions. By establishing the ESCO industry and facilitating the widespread use of energy savings agreements, it is expected that private investment in energy efficiency will be mobilized through ESCOs and investments based on energy service agreements. Specifically, it is expected to generate USD10 million through private investment for energy efficiency through ESCOs and investments based on energy service agreements.

(d) **Indicative Trigger for the second Program:** To boost energy efficiency, the government will adopt revised building construction codes with more stringent energy efficiency requirements and a methodology to evaluate and categorize the energy efficiency performance of existing buildings, through a Resolution of the Cabinet of Ministers.

2.36.5 **Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through the provision of financial incentives by the government.** To develop green financing and boost energy efficiency, the government has adopted Presidential Resolution No. 77 dated Feb. 27, 2025 and Presidential Decree No. 63 dated March 27, 2025, introducing a package of financial incentives that cover: (a) green energy equipment such as solar panels, solar collectors and high-efficiency heat pumps; (b) financing for energy audits and (c) support for building renovation loans implemented through performance-based contracts.

(a) **Rationale:** Financial incentives can boost energy efficiency and renewable generation by addressing barriers like high upfront costs, behavioral hurdles and market failures. Technologies such as rooftop solar and high-efficiency heat pumps are readily available but remain under-adopted due to their significant upfront investment needs. Building retrofits (for example, insulation upgrades) are effective but require specialist assessment and financing. Lowering end-user energy demand reliably reduces GHG emissions and improves public health: many Uzbek homes still use coal burners for heating, which accounts for up to 29% of Tashkent's PM2.5 pollution**.**

(b) **Significance of the Prior Action:** The targeted financial incentives from the government will help scale energy efficiency and accelerate the adoption of renewable energy technologies through financing for the upfront costs and mitigation of financial risks. This would make these technologies and solutions more attractive to households, businesses and investors and help catalyze investment in energy efficiency and renewable energy. This would then help reduce GHG emissions and help speed up the government's transition to a low-carbon energy system.

(c) **Expected Results:** The reforms are expected to lower energy use and increase the renewable energy capacity installed in homes and buildings, which is expected to ramp up over time and eventually reach three times the current installed capacity by 2028.

(d) **Indicative Trigger to the second Program:** To develop green financing and boost energy efficiency, the government will incentivize emission abatement investments by establishing a rebate system on industrial pollution charges through a Resolution of the Cabinet of Ministers.

2.36.6 **Prior Action 7: Advancing the climate agenda through climate-sensitive public procurement.** To promote green practices in public procurement, the government has adopted Resolution of the Cabinet of Ministers No. 371 dated June 18, 2025 and No. 230 dated April 15, 2025 to integrate environmental considerations into public procurement to enable government entities to leverage their procurement power to support sustainable development and prioritize procurement of "green" products.

(a) **Rationale:** The prior action operationalizes the Amendment to the Public Procurement Law of Uzbekistan, adopted in July 2024, which has formally incorporated green procurement principles as a core aspect of public procurement. Through the Cabinet of Ministers Decision No. 230 dated April 15, 2025, Uzbekistan instituted a nationwide "Green Certificate" system to environmentally certify technological processes used in product manufacturing and service provision, with the Ministry of Ecology, Environmental Protection and Climate Change designated as the competent authority and a single public registry to ensure transparency and enforcement. From Oct. 1, 2025, a valid Green Certificate becomes mandatory for key regulatory milestones—state environmental expertise for high-impact activities and product conformity certification for domestically made goods. Additionally, through Cabinet of Ministers Resolution No. 371 dated June 18, 2025, the government established a comprehensive framework to mainstream green public procurement by mandating environmental criteria in state tenders from Jan. 1, 2026, incentivizing eco-labeled suppliers with scoring and fee benefits. The resolution strengthens institutional support through training, transparency and digital integration—publishing green procurement data, expanding authorized certification bodies' listings and embedding eco-labeling into the "Sustainability Rating of Entrepreneurs."

(b) **Significance of the Prior Action:** Public procurement accounts for a significant share of GDP. By mainstreaming "green" principles in public procurement, the government is, in effect, using its purchasing power to advance its climate and environmental goals. Products and services that are certified will be formally recognized as "green" in the framework of state procurement. Environmental criteria will become mandatory for evaluating bids and will be included in procurement documentation for tender procedures. The specified environmental criteria require compliance with "environmental protection legislation during its production" and, since July 9, 2024, under the amended law on impact assessment and review, this covers climate change risks and enhancements. The government is also working on green eco-labeling of products, developing specifications and tender documents to support green procurement and establishing green evaluation and monitoring mechanisms.

The shift to green public procurement encourages the adoption of cleaner technologies and more resource-efficient practices. These encourage lower GHG emissions through favoring products and services with reduced pollution and carbon footprints and promoting energy efficiency, among others.

(c) **Expected Results:** It is expected that this reform will increase the products and services bearing "green label" certification, demonstrating compliance with climate criteria, which will be formally recognized as "green" in the context of state procurement. Business entities that hold such certification will be eligible to supply goods, works or services classified as "green" under state procurement frameworks. It is expected that this reform will increase the proportion of green public procurement from 5% in 2024 to 20% in 2028.

2.37 **Catalyzing Infrastructure Investments and Private Capital Mobilization**. The policy reforms in the proposed Program knit together pricing, market design, institutional capacity and demand-shaping tools to unlock bankable, climate-aligned investment at scale. This is essential given Uzbekistan's long-term capital needs: in the deliberative Net Zero (NZ) 2060 pathway developed by the WB, annualized[24] total investments rise from about USD20 billion in 2030 to USD106 billion by 2060, with especially large requirements in transport, buildings, power, storage and cross-border infrastructure and high expected private participation in transport (90%–95%), buildings (80%–95%) and industry (90%–100%). Decarbonization will bring substantial benefits across the infrastructure sector. WB CCDR for Uzbekistan estimated it to deliver over USD178 billion in benefits through 2060, including approximately USD112 billion from avoided pollution, accidents and damage and USD66 billion from avoided fossil fuel imports.

2.38 Correcting price signals in heating and power is a keystone for crowding in private capital. The phased move to cost-recovery district heating tariffs restores utility cash flows and creditworthiness, enabling borrowing and PPPs for network rehabilitation, metering, building retrofits and cleaner heat sources. By reducing subsidy needs, this reform frees fiscal space for priority climate-resilient infrastructure. The analysis carried out by the WB indicates that removing energy subsidies and introducing carbon pricing can create up to 5% of GDP in additional fiscal space over the transition, resources that can be redeployed to smart green subsidies and public goods that leverage private finance. The reform's social measures are pivotal to sustain credibility during adjustment, cushioning households as efficiency upgrades scale up and reducing the risk of policy reversal that would otherwise deter investment.

2.39 Market reforms in the electricity sector further open up investment channels. Transitioning to a wholesale market with a credible central buyer and clear Market Rules enables bankable offtake for utility-scale renewables and storage, while direct sales to eligible consumers support corporate PPAs and distributed generation. Private participation in distribution is expected to mobilize capital expenditure (capex) for grid modernization and loss reduction. This is critical for integrating variable renewables and meeting the NZ2060 power-sector ramp-up, where power and hydrogen investments in the NZ2060 scenario reach USD7.5 billion (2023–2030, discounted) and USD98.4 billion (2031–2060, discounted), with 60%–75% expected from private sources. These reforms could help deliver the aforementioned broader decarbonization benefits and shift investment from public to private

[24] Annualization means that investments are spread out over the lifetime of the asset.

balance sheets. Currently, the power sector is the second largest recipient of AIIB financing in Uzbekistan. AIIB-approved financing, in the total amount of USD725 million, has been directed toward building renewable energy and highly efficient power generation capacities, as well as investments in green bonds. The Program will promote greater diversification toward renewable energy, particularly through the Bank's new pipeline investments in distributed renewable energy, utility-scale renewables and power grid upgrades to absorb new renewable generation capacities.

2.40 Capital market and SOE reforms, anchored by the NIF, aim to mobilize private capital at scale for green-relevant backbone sectors. The NIF's mandate to professionalize asset management and drive listings and privatizations is expected to catalyze around USD1 billion in private capital across tracked areas, while an IPO program covering stakes of 20%–40% in at least 15 SOEs by 2028 and a public state-aid registry strengthen transparency and competitive neutrality that investors require to finance modernization aligned with decarbonization and resilience priorities. As market depth increases, post-privatization operators in power, telecoms and logistics can undertake green capex with improved governance and access to finance. The NIF portfolio of SOEs is currently concentrated in energy, metallurgy, banking, transport/airports, chemicals and services, offering multiple entry points for AIIB non-sovereign financing—particularly in energy T&D upgrades, airport modernization, green industrial upgrades and bank intermediated green finance.

2.41 Carbon market rules and MRV systems create monetizable revenue streams for mitigation projects, improving bankability. Clear, Paris-aligned crediting frameworks and national registries reduce verification risk and support the aggregation of projects in renewables, industrial efficiency, methane abatement and nature-based solutions. These mechanisms complement future carbon pricing and fuel standards, enhancing price signals identified as critical for unlocking private green investment.

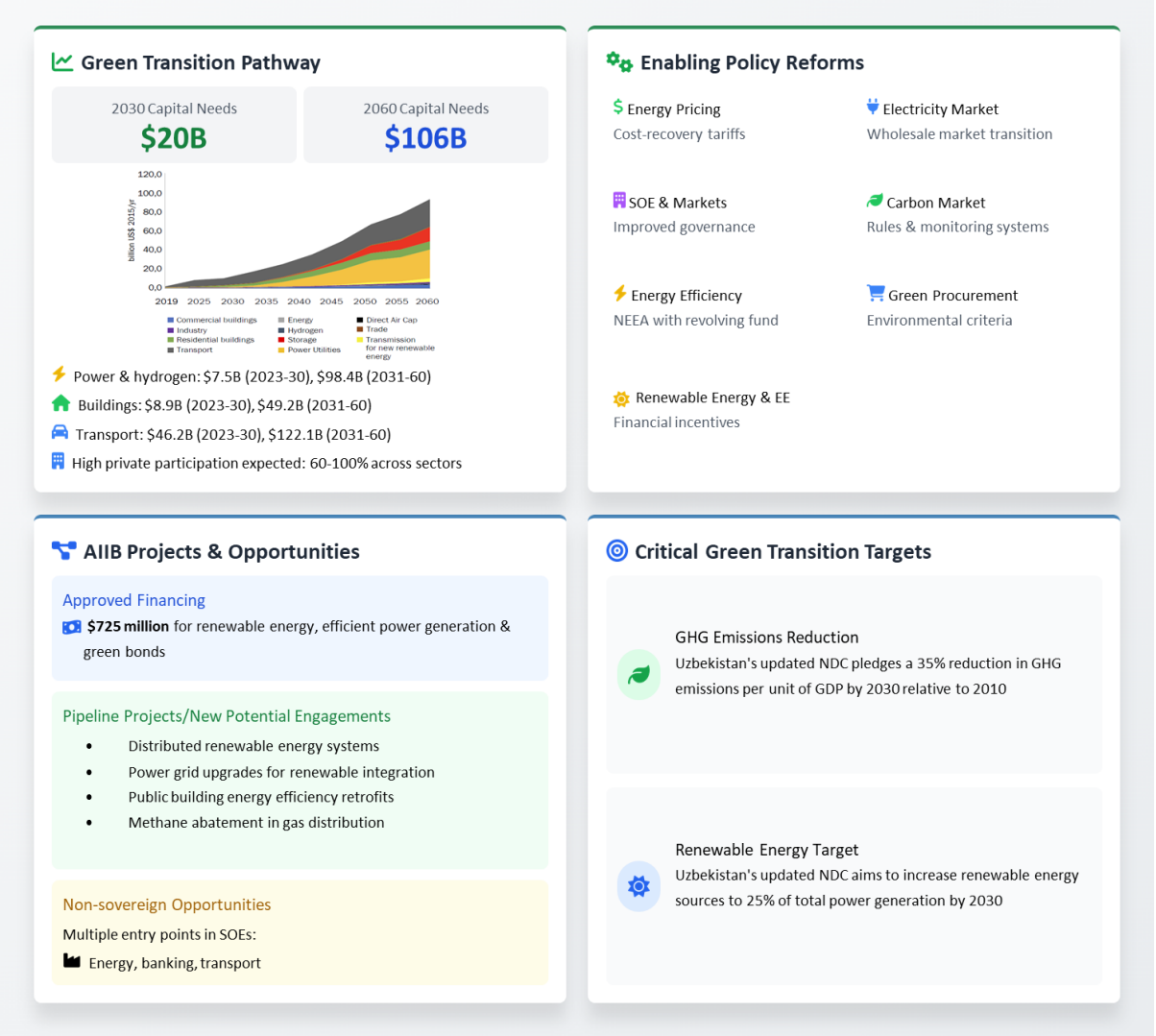
2.42 Institutionalizing energy efficiency is a low-cost, high-impact lever for both mitigation and affordability. The establishment of NEEA with a funded 2025 work program is designed to standardize audits, codes and MRV, enabling performance-based contracting and an ESCO market. Thus far, energy audits have been completed for 250 buildings, with an estimated total retrofitting cost of approximately USD150 million. A tender for a lot of 30 buildings in the Tashkent region, estimated at USD10 million, has been announced in early September 2025. An additional 5 to 10 lots are being prepared for bidding by the end of 2025. Retrofitting measures aim to achieve a 30% improvement in energy efficiency through insulation, window replacement, heat pumps and the installation of solar panels. A revolving fund has been established under NEEA, operating in partnership with the MOEF, as a vehicle to attract MDB and commercial bank financing. The investment return mechanism relies on measured and verified energy savings (via performance contracts), with savings redirected to the revolving fund or used to service loans/contractor payments, yielding typical payback periods of about 3–7 years, depending on measures and enabling the fund to recycle capital for new projects. Revised building codes and methodologies for rating existing buildings will further systematize pipelines suitable for green lending and securitization. AIIB has already identified potential interventions in energy efficiency, including public building retrofits that will directly reduce energy consumption and costs for public facilities. These retrofits, alongside the tariff adjustments, aim to improve the financial sustainability of the energy, including the heating sector, while promoting energy conservation and reducing the burden on public finances.

2.43 Targeted financial incentives accelerate distributed renewables and end-use efficiency where paybacks are a barrier. Support for rooftop solar, solar water heating, high-efficiency heat pumps and financed energy audits compresses payback periods and derisks adoption for households and SMEs, building standardized pipelines for banks. These end-user investments are central to the NZ2060 portfolio, where buildings' discounted investment needs total USD8.9 billion (2023–2030) and USD49.2 billion (2031–2060), with 80%–95% expected from private sources. The Uzbekistan Public Distributed Solar Energy Development Project, which is being prepared with support from the AIIB Project Preparation Special Fund (PPSF) grant, directly contributes to the stated goals by promoting rooftop solar power installations to meet the electricity needs of social and public buildings, particularly in regions experiencing power shortages. The project will benefit from proposed reforms and aligns with the government's plan to accelerate the adoption of renewable energy sources and energy-saving technologies.

2.44 Finally, green public procurement (GPP) uses public demand to shape markets for low-carbon materials and efficient equipment. Embedding environmental criteria and certification into procurement frameworks provides predictable, quality-assured demand that suppliers can bank against when investing in new production lines and capacity. Over time, this reduces the lifecycle costs of public assets and supports the scaling up of private investment across green supply chains, including energy-efficient construction components and clean technologies.

2.45 In sum, the reform package addresses the price, market, institutional and demand barriers to mobilizing sustainable infrastructure finance. It does so in a macro-credible way, with energy subsidy and carbon pricing reforms capable of creating up to 5% of GDP in fiscal space to co-finance catalytic green investments and protect vulnerable groups, while channeling private capital into the highest-impact sectors identified by the NZ2060 investment pathway.

Figure 3. Policy reforms, Green Transition, and Areas for Potential Downstream Investments



2.46 **Policy-Based Financing Needs and Budget Support.** The government's financing needs are estimated from the fiscal deficit to be USD3.9 billion for 2025. The projected annual external borrowing is USD3,000 million in 2025, with the balance being funded through domestic sources. Uzbekistan seeks budget support from AIIB and other development partners to fund its financing needs, which will require strong collaboration among its development partners. Accordingly, Uzbekistan is assessed to have the necessary financial resources to implement the envisaged reforms.

2.47 Under the program, AIIB will provide a USD500 million loan, which represents 13% of the estimated 2025 fiscal deficit. The WB will provide the government an USD800 million loan to support its DPO, broken down into: USD508 million loan from the International Bank for Reconstruction and Development (IBRD); USD165.8 million credit from the International Development Association (IDA); a USD46 million shorter maturity credit from IDA and a USD80.2 million IDA scale-up window credit.

2.48 **Consultations and Collaboration with Development Partners and Stakeholders.** The selection of the policy reforms supported by this Program has benefited from the

government's—through the MOEF—consultation with both AIIB and the WB, as well as line ministries. The policy reforms have been informed by analytical work, with support from the WB. In addition, the Program's policy reforms are embedded priorities in the government's "Green Economy Strategy" and NDC, which benefited from past stakeholder consultations as well as ongoing policy dialogues.[25] For each reform, the government places the draft legislation for at least two weeks on a website, which serves as its public regulatory consultation portal. This has been the practice since 2017, when public accountability has transitioned to an interactive process between the government and the public. Additionally, in 2025, the government also conducted extensive communications to explain the need for energy tariff reforms. It gathered public feedback, stressing the importance of raising tariffs to achieve cost recovery levels.

2.49 **Implementation Arrangements.** The MOEF is the main implementing agency and is thus responsible for implementing the Program supported by the proposed operation. The MOEF will coordinate with other government agencies to implement the operation. These include the Ministry of Energy, State Assets Management Agency, National Energy Efficiency Agency, and Ministry of Ecology, Environmental Protection and Climate Change.

2.50 **Sustainability.** The sustainability of the reforms is anchored in the government's ownership of the Program. The government has committed to each of the prior actions and target results. In addition, reform sustainability is anchored on the government's medium- and long-term national strategies, which provide overarching frameworks to lock in reform continuity beyond this operation. Mainstreaming climate change priorities through a whole-of-government approach led by the MOEF, which has the coordinating mandate for the promotion of the government's "green economy" goal and a dedicated department for "green economy," strengthens the Program's implementation and sustainability. The programmatic design for this operation, through the Bank's proposed participation in DPO2, helps to lock in reforms, as it creates incentives to continue the policy adjustments. These incentives help mitigate the risk of reversal or diminishing reform momentum. The government is further motivated to demonstrate Program results and sustainability, in view of the additional CPBF operation in 2026 to be co-financed with ADB. Finally, the government is working with WB and other development partners to receive expert assistance and policy advice as well as technical assistance (TA). This will help the government address capacity gaps in carrying out the policies and enable them to follow through on reform implementation and results framework completion. The WB is providing TA across several policy reform areas.

[25] Consultations and policy dialogues include: https://www.undp.org/uzbekistan/press-releases/international-forum-strategic-and-priority-directions-uzbekistans-transition-green-economy-took-place-tashkent, https://www.tashkenttimes.uz/national/8407-policy-dialogues-on-building-a-green-economy-contribute-to-uzbekistan-s-development, and https://blogs.worldbank.org/en/climatechange/uzbekistan-policy-dialogue-builds-momentum-transition-green-economy

3. Program Assessment

A. Macroeconomic Outlook and Debt Sustainability

3.1 **Macroeconomic Background**. Uzbekistan is a lower-middle-income economy with a population of around 38 million and an income per capita of around USD3,510. Uzbekistan is landlocked and borders all other economies in Central Asia, thus holding a strategic position between Asia and Europe. Since 2017, an ambitious program of market-oriented reforms has been underway. The modernization agenda has made Uzbekistan an attractive destination for investment, both foreign and domestic. It has a remarkably high investment rate, around 40% of GDP. Uzbekistan's high growth potential is further underpinned by a young and abundant labor force, diversified commodity exports, macroeconomic stability and modest debt levels. Between 2017 and 2022, Uzbekistan's economy has grown by 5.4% per year on average (or 3.5% in per capita terms), better than many other lower-middle-income economies. This performance can be attributed to income convergence and a high level of investments, along with the significant expansion in the services and industrial sectors.

3.2 **Macroeconomic Policy Framework and Outlook**

3.2.1. **Economic Growth.** Uzbekistan has shown remarkable resilience to recent shocks, including the coronavirus disease (COVID-19) pandemic, spillovers from the armed conflict involving its largest neighbor and tight global financing conditions. Despite global headwinds, growth remained positive in 2020, rebounded sharply in 2021, and has since sustained robust rates of around 6–6.5 percent, driven by an improved domestic and external environment, fiscal support and high remittances. The unemployment rate fell to 5.5% in 2024, down from 6.8% in 2023. Real wages have been growing fast, which has contributed to poverty reduction. Potential growth remains strong, at around 5.5%-6% per year. Uzbekistan aims to become an upper-middle-income economy by early next decade, transitioning from a state-controlled to a private-sector-led market economy, which will raise incomes and improve living standards.

Key Economic Indicators	2022	2023	2024	2025*	2026*	2027*
Real GDP growth 1/	6.0	6.3	6.5	6.8	6.0	5.7
Inflation (end of period) 1/	12.3	8.7	9.8	8.5	6.5	5.0
Fiscal balance	-3.7	-4.0	-2.4	-2.4	-2.3	-2.4
Public debt	30.5	32.2	32.7	31.1	31.0	30.6
Gross public financing needs	4.6	7.6	6.3	4.8	5.7	5.8
Current account balance	-3.2	-7.6	-5.0	-5.0	-4.8	4.8
External debt	49.2	54.5	56.2	55.4	55.2	54.7
FX reserves (USD billion) 2/	35.8	34.6	41.2	55.0	..	..
Exchange rate, UZS/USD 2/	11,225	12,339	12,920	12,089	..	..

Source: IMF Country Report, June 2025; IMF WEO October 2025; in percent of GDP, unless indicated otherwise Notes: 1/ percent change, year-on-year; 2/ data from central bank, most recent as of October 15, 2025

3.2.2. **Risks to the outlook** include slower growth in trading partners, especially Russia, Uzbekistan's major trading partner and source of remittances, which are a major support to livelihoods and external finance. Domestically, risks include contingent liabilities from SOEs and potential slippages in reforms. An important long-term challenge is climate change, which could hinder Uzbekistan's sustainable growth potential.

3.2.3. **Economic reform program.** Uzbekistan has undertaken extensive reforms in recent years, liberalizing various sectors of the economy and enhancing opportunities for private sector development. The large energy subsidies are being reduced (gas tariffs hikes for businesses in 2023 and households in 2024), which is supporting public finances, reducing contingent liabilities and contributing to decarbonization. Plans to phase out subsidized lending and privatize large banks are moving more slowly than planned. Large SOEs and state-owned banks still contribute more than 50% of GDP. A key long-term challenge for Uzbekistan is to create sufficient quality jobs for its large, young and fast-growing labor force.

3.2.4. **Green agenda.** Uzbekistan has made significant strides in advancing its green agenda, focusing on improving vehicle emission standards, setting more ambitious environmental goals and developing a new pollution control system and a national green taxonomy. The high GHG emissions per unit of GDP highlight the need for significant improvements in energy efficiency. In 2021, Uzbekistan strengthened its NDCs, raising its target to a 35% reduction in emissions intensity by 2030, versus the 2010 baseline. The government has intensified its efforts to develop alternative energy sources. According to EBRD, preliminary data indicate a substantial increase in electricity generated by solar plants, albeit from low levels. The government also unveiled ambitious renewable energy investment plans and adopted a Long-term Carbon Plan (LCP) for the power sector.

3.2.5. **Fiscal policy.** The fiscal deficit narrowed to 2.4% of GDP in 2024—a 1.6 percentage point improvement—driven by growth-friendly spending measures and a sharp reduction in energy subsidies to below 1% of GDP. Gradual fiscal consolidation is expected, keeping the deficit below the target of 3.0%. At the same time, further progress on the broadening of the tax base, modernization of the tax administration and better efficiency of spending is needed.

3.2.6. **Monetary policy, inflation and the financial sector.** Inflation in Uzbekistan has been relatively high, due to price liberalization, structural adjustment and high consumption growth. Dollarization has declined but remains relatively high (at around 30%-40%). The central bank has been operationalizing the newly introduced inflation targeting mechanism. Inflation fell from a peak of 14.4% in early 2018 to around 8.0% currently. The monetary policy is relatively tight, with consistently positive real rates, meant to further reduce inflation to the 5% target, expected by 2027, according to the IMF. The banking sector is stable and well-capitalized, but financial intermediation is low as most banks remain state-owned (accounting for two-thirds of assets). Privatization is ongoing, but progress is relatively slow.

3.3 **Debt Sustainability.** Public debt remains sustainable despite increases in recent years. It has risen to 32.7% of GDP by 2024 (still low by peer standards) and is expected to gradually decline in the medium term, thanks to high economic growth and fiscal prudence. Key risks to the debt profile include potential devaluation, given the high foreign exchange (FX) component (90%). Risks are mitigated by the large share of official borrowings at concessional rates and long maturities (nine years), robust growth outlook, ample fiscal space and substantial FX reserves (over 10 months of imports). Fiscal limits, including an external

borrowing limit, a debt ceiling of 60% of GDP and a budget deficit target of 3% of GDP, further strengthen debt sustainability.

3.4 Uzbekistan's creditworthiness has remained resilient despite recent shocks. S&P improved its BB- rating from stable outlook to positive, Moody's maintained its Ba3 rating but improved the outlook to positive and Fitch upgraded its rating to BB from BB-, citing accelerated reforms and strong medium-term growth prospects.

3.5 **Macroeconomic adequacy.** Uzbekistan's macro policy framework is adequate and consistent with growth and macro stability, including debt sustainability. Monetary policy is anchored in the inflation target, with an appropriately tight stance. The authorities are generally committed to fiscal prudence. Fiscal policy operates within the guardrails of the deficit, debt and borrowing limits/targets. An ambitious, credible and feasible fiscal consolidation effort is underway, while retaining space for investment and social protection. The planned reduction in fossil fuel subsidies is strengthening the overall consistency of macro policies with energy transition. Macro stability and the reform program underpin the robust medium- and long-term potential.

3.6 **IMF's views.** The most recent Article IV staff report serves as the Assessment Letter, in line with Fund policies. IMF notes Uzbekistan's significant progress in transforming its economy, with rapid growth and poverty reduction, despite major shocks. It commends authorities' reform efforts, most notably the energy price reform and privatization of SOEs, while emphasizing the need for continued reforms. IMF also notes that planned policies are appropriate to maintain robust public finances and facilitate external adjustment while supporting monetary policy.

3.7 **World Bank views.** The WB considers Uzbekistan's macroeconomic policy framework adequate. It highlights Uzbekistan's strong economic growth alongside successful fiscal consolidation, with fiscal sustainability risks remaining low. Monetary policy is viewed as prudent and supportive of macroeconomic stability, with ongoing progress toward inflation targeting. Finally, the financial sector is assessed as resilient.

B. Public Financial Management and Disbursement

3.8 **The 2024 Public Expenditure and Financial Accountability (PEFA) assessment highlights notable progress that the government has made in strengthening its Public Financial Management (PFM) systems, while also underscoring that further improvements are needed.** Key achievements include the modernization of the PFM legal framework, which underpins core policies and practices, the adoption of the 2013 Budget Code and the 2023 constitutional revision. The revised constitution has reinforced Parliament's role in budget oversight, while the Budget Code has facilitated a shift toward a medium-term, results-oriented fiscal policy framework. In addition, advances in IT systems and associated software, supported by enhanced internet connectivity and capacity building of personnel, have positively impacted PFM performance.

3.9 Despite the progress in PFM, the 2024 PEFA assessment also cites further areas for improvement such as medium-term expenditure planning, linkages between strategic planning and annual budgets, revenue management and fiscal risk reporting.

3.10 **The government has since been progressively strengthening its macroeconomic and fiscal forecasting by adopting a fiscal strategy and translating it into a medium-term expenditure framework.** June 2025 IMF Article IV recognized this progress and further recommends that the fiscal strategy paper set a three-year borrowing limit and PPP caps, with the fiscal risk statement assessing deviations, to strengthen fiscal discipline and manage associated risks. Furthermore, steps should be taken to fully address fiscal risks by including direct PPP costs in the budget, integrating PPPs into the broader public investment management framework and lowering the annual PPP cap in line with limited absorption capacity. Additionally, further reforms of fiscal institutions are needed to enhance the effectiveness of policymaking, including reorganizing the MOEF, unifying the public investment process and improving the monitoring and management of fiscal risks arising from SOEs and PPPs.

3.11 **The 2025–2030 PFM Reform Strategy and Action Plan has been developed to address the areas identified for further improvement in the 2024 PEFA Assessment.** The Strategy is being supported by development partners including the IMF, WB, ADB and UNDP. It aims to strengthen fiscal discipline, improve strategic prioritization and medium-term budgeting, enhance the efficiency of public expenditure and investment and improve budget execution, quality of fiscal information quality and accountability process. Key long-term goals include the full implementation of a result-oriented budgeting system and adopting International Public Sector Accounting Standards (IPSAS) by 2030.

3.12 **AIIB has been building on the progress already achieved in strengthening fiscal planning and the budgeting process.** The AIIB Climate Policy-Based Loan, Accelerating the Climate Transition for Green, Inclusive, and Resilient Economic Growth (Subprogram 1), approved in December 2024 and co-financed with ADB, supports integration of gender and climate priorities into the fiscal strategy and medium-term budget framework. It promotes program-based budgeting with climate- and gender-related outcome indicators, requires climate impact assessments for public investment projects and discloses climate fiscal risks in the Fiscal Risk Statement. Further progress is expected under Subprogram 2, anticipated for approval in the third quarter of 2026. The subprogram aims to strengthen climate-responsive budgeting through ex-ante assessments of green fiscal measures, publishing ex-post spending reviews, integration of climate risk management into PPP projects and implementation of a comprehensive fiscal risk management strategy to support climate-resilient planning.

3.13 **The institutional reforms, complemented by continuous staff capacity building, are ongoing**. In 2023, the Ministry of Finance and the Ministry of Economy were merged to establish the MOEF. Since then, the SOE and PPP related contingency functions are being consolidated under the Fiscal Risk Department, previously managed separately. The government remains ambitious and committed to further reforms aimed at eliminating duplication, strengthening coordination and enhancing efficiency and effectiveness in policymaking and fiscal risk management.

3.14 **The Central Bank of Uzbekistan (CBU) remains committed to strengthening governance and transparency, in line with recommendations from the recent safeguards assessment.** Although there are further improvements needed in governance

and transparency, the IMF has not cited any notable weaknesses in the CBU's foreign exchange control environment.

3.15 The CBU is regularly audited by an international audit firm; however, its financial statements are still prepared according to internal accounting procedures rather than IFRS. Progress toward IFRS adoption is ongoing and efforts are underway to publish the 2024 external audit report, a significant step, as this has not standard practice previously.

3.16 **The Chamber of Accounts (CoA), Uzbekistan's Supreme Audit Institution, has made notable progress in institutional development and independence.** The IMF, however, recommends further strengthening of the CoA's independence, particularly regarding provisions for the removal of its head.

3.17 The CoA's functions and operational procedures are defined by law and a 2019 law approved by Parliament expanded its mandate beyond financial and compliance audits to include performance audits of government agencies. In 2021, the CoA became a legal entity, a full member of the International Organization of Supreme Audit Institutions and approved standards for compliance, financial and performance audits based on the International Standards of Supreme Audit Institutions (ISSAIs). The next priority is to further align Uzbekistan's public audit practices with ISSAIs. Currently, the CoA is receiving support from several development partners including WB, ADB and EU, to further strengthen its institutional capacity and advance the implementation of audits in accordance with ISSAI standards. Audit reports of the government budget execution are prepared and discussed by Parliament. The CoA publishes summaries of its audit findings, as well as its quarterly and annual reports.

3.18 Based on the assessment conducted in accordance with the Operational Policy on Financing (November 2024), the program fiduciary risk is assessed as Medium. While further improvements are needed in budgeting and strategic planning, such as implementing program-based budgeting across all government levels and enhancing the public investment process, the government remains ambitious and committed to its PFM reforms. Additional reforms include fully adopting IPSAS and strengthening the CBU's operational framework. With a clear roadmap in place and no significant weaknesses noted in the CBU's foreign exchange control environment, the existing PFM systems are expected to ensure that loan proceeds are allocated and used for productive activities aligned with national development priorities.

3.19 **Disbursement and Auditing.** The loan proceeds will be made available to Uzbekistan upon the effectiveness of the Loan Agreement and submission of a withdrawal application provided that the borrower has carried out the Program satisfactorily and its macroeconomics policy framework is adequate. The AIIB will disburse the loan proceeds into a foreign currency deposit account held at the CBU, forming part of the Treasury Single Account (TSA) and Uzbekistan's official foreign exchange reserves, in the name of the MOEF. Within 30 days, the MoEF will report to AIIB: (a) the exact amount received, supported by a bank statement and (b) evidence that the equivalent amount has been recorded in MOEF the budget management system. If the proceeds of the loan or any part thereof is used for ineligible purposes, as defined in the Loan Agreement, AIIB will require the MOEF to promptly return such an amount. The amount refunded shall be cancelled from the Loan. No specific audit of

the deposit of the loan proceeds will be required. However, AIIB reserves the right to request such an audit at its discretion.

3.20 **Procurement.** The Law of the Republic of Uzbekistan on Public Procurement (April 2021) regulates how the government procures Goods, Civil Works and Services. This regulation aims to ensure transparency, efficiency and accountability in public procurement. The law outlines various procurement procedures, including open competitive tendering and E-Procurement process and defines the roles and responsibilities of all parties involved. The law also lays the framework for sustainable public procurement, including the adoption of environmental and social requirements in the tender documents.

3.21 As per the Program Document (First Uzbekistan Programmatic DPO [P511920]) of the WB, there was an amendment to the Public Procurement Law of Uzbekistan, adopted in July 2024, which has officially incorporated “Green procurement principles” as a core aspect of public procurement, the evaluation criteria of Climate and Environmental will become mandatory for evaluating tenders and must be included in procurement documentation for tendering procedures. Therefore, there is expectation of a substantial potential to drive progress on the climate agenda through focused policy initiatives.

C. Environmental and Social Aspects

3.22 AIIB’s Environmental and Social Policy (ESP) and the Environmental and Social Exclusion List (ESEL), apply to the Program. The assessment of environmental and social impacts of the Program is largely informed by the analytical work of the WB, co-financier, including an environmental and social impact analysis matrix that has been prepared for specific policy actions. Annex 5 outlines the summary of potential direct and indirect impacts of each policy action supported by AIIB.

3.23 The Program focuses on policy and institutional reforms that do not entail involuntary resettlement or impact the lives of Indigenous Peoples. However, it is recognized that some downstream investment activities resulting from specific policy actions under the Program may lead to indirect, short-to-medium term and temporary adverse impacts. To address these potential concerns, government compensations for vulnerable communities were provided and implementing agencies will utilize their existing grievance redress mechanisms, which cover multiple channels for citizens, private individuals or project-affected people to submit complaints, including Presidential receptions and the e-government system.

3.24 **Environmental Aspects.** The Program's policy actions supporting Uzbekistan’s green economy transition are expected to deliver significant environmental benefits through energy efficiency, renewable energy expansion and climate-responsive regulatory frameworks, in line with recent Presidential resolutions, laws and guidelines emphasizing government attention to environmental and social issues. Some policy actions, however, carry short- to medium-term environmental risks that require careful mitigation and capacity building.

3.25 The district heating tariff reform (PA1) is a critical step to promote energy efficiency and reduce GHG emissions. By gradually raising tariffs for households, businesses and public institutions, the government encourages more responsible energy consumption and improves the sustainability of the heating sector. These measures are designed to provide transparent

pricing signals, which can drive private sector participation with new investments. Tariff increases are being implemented gradually and paired with household compensation measures, including tariffs for vulnerable groups, to mitigate the risk of increased use of fossil fuels (e.g., coal) among low-income households in the short term, which contributes to indoor and local air pollution and higher GHG emissions. Additional reforms in energy efficiency, such as development of energy efficiency standards in district heating and methane leakage controls in the gas sector, are under consideration.

3.26 The liberalization of the electricity market reform (PA2) aims to promote renewable energy investments, supports Uzbekistan's transition to low emission energy and develops more competitive electricity production and distribution system. The introduction of a central buyer model and private sector access to the distribution network are expected to improve environmental compliance. Complementary measures, such as creating market rules and an independent regulator may drive private sector participation and GHG emission reduction. The Program supports several risk mitigation measures such as reinforcing strategic environmental assessments, improving T&D loss reduction strategies and clarifying environmental licensing requirements. Nonetheless, environmental assessments of grid expansion and renewable zones remain limited.

3.27 The creation of the NIF (PA3) and the application of competitive and ESG principles to privatization processes are expected to reduce state market dominance toward a more dynamic economy and enhance environmental outcomes. Environmental and social assessment should be strongly integrated into the asset restructuring processes of the NIF.

3.28 Reforms to establish clear rules for a carbon credit system (PA4) and an MRV framework for GHG emissions, aligned with Uzbekistan's NDC commitments, are expected to accelerate emissions reductions and improve air quality. These reforms have positive distributional effects, especially benefiting low-income households and informal workers with lower adaptive capacity. Nonetheless, gaps remain in regulatory readiness, MRV system design and linkage to international markets. To address these issues, the Program supports the establishment of credit generation, verification and trading protocols, along with the development of national MRV guidelines aligned with international standards.

3.29 The establishment of NEEA (PA5) provides an authority to implement energy-saving policies, regulate incentives and coordinate investments in energy efficiency projects. The creation of a centralized agency under the Cabinet will oversee adoption of energy-efficient solutions in buildings and public infrastructure, energy audit protocols, retrofit standards and ESCO contracts. The NEEA will facilitate upgrading of building codes, employment of standardized evaluation methodologies for energy performance and, hence, improving environmental outcomes. However, gaps include a lack of qualified audit services, the absence of consistent building energy efficiency ratings and risks that without sustained financing and monitoring, incentives may not reach low-income households or fail to drive systemic change. To address these issues, the Program will support the development of appropriate monitoring processes to evaluate energy savings and emission reduction.

3.30 The provision of financial incentives by the government, via adopted Presidential Resolution, for increasing renewable energy generation and for improving energy efficiency (PA6) introduced a package of financial incentives that cover: (a) green energy equipment

such as solar panels and collectors and high-efficiency heat pumps, (b) financing for energy audits and (c) support for building renovation loans implemented via performance-based contracts. It addresses environmental priorities such as reducing household GHG emissions and local air pollution. Still, uptake is constrained by limited consumer awareness and weak enforcement of retrofit programs. Hence, the Program also supports provision of capacity building and technical support to improve adoption and effectiveness of its implementation.

3.31 Integrating environmental criteria into public procurement enables the government to leverage its purchasing power to support sustainable development. Prioritizing "green" products in public contracts stimulates markets for environmentally friendly goods, reduces emission-intensive consumption, promotes energy-efficient technologies and develops environmentally conscious practices in public institutions. Green public procurement (PA7) seeks to integrate environmental criteria into public purchasing decisions. Risks include carbon-intensive procurement in the absence of strong standards. These are being addressed through legislative amendments mandating climate criteria and the certification of "green" products in public tenders. However, some implementation gaps persist, such as limited training for procurement officers. The Program will support the development of procurement guidelines and capacity-building measures to ensure environmental integrity in procurement decisions.

3.32 Overall, the Program is expected to result in positive environmental outcomes, particularly in GHG reduction, air quality improvement and climate resilience. Measures supporting the heating reform, electricity liberalization, privatization of large SOEs, creation and trade of carbon credits, energy efficiency, energy generation from renewables and climate-sensitive public procurement are likely to directly and indirectly benefit businesses, public institutions and households, which are currently affected by air pollution and energy supply disruptions. In urban areas like Tashkent or Namangan, where residential heating contributes nearly 29% of PM2.5 emissions, incentives for energy efficiency, building renovations, solar panels and heat pumps will reduce emissions and improve public health outcomes.

3.33 Risks and mitigation measures lie in: (a) provision of subsidies to low-income communities, proportional to tariff increases, to prevent them from shifting to polluting fuels such as coal and worsening air quality; (b) employment of robust environmental safeguards in SOE privatization before the assets are sold; (c) delivery of MRV in carbon credits; (d) planning of the electricity grid and delivery of competitive renewable feed-in tariffs in the medium term, to steer electricity liberalization and (e) establishment of independent oversight bodies in a longer term to maintain environmental governance especially in the SOE and carbon credit sectors. Targeted support is essential to address institutional, technical and regulatory gaps that might compromise the environmental effectiveness of the reforms.

3.34 **Social Aspects.** The Program's policy and institutional reforms to support Uzbekistan's green transition provide opportunities for poverty reduction and social inclusion, while recognizing short-term distributional risks during the transition. Of the AIIB-supported policy actions, five out of seven are expected to yield positive social impact, with two (PA 1 and PA 2) presenting near-term affordability and market-transition risks that are subject to targeted mitigation and monitoring.

3.35 In the energy sector, increasing district heating tariffs (PA1) address long-standing cost recovery gaps, which may pose short-term poverty risks, particularly for low-income households. To mitigate these risks, the government will provide a one-time transfer of UZS1,000,000 in November 2025 to eligible low-income and vulnerable households. Eligibility is administered through the unified social protection registry and *mahalla*-based determinations, reflecting expansion of coverage relative to earlier winter utility support. Consistent with the WB's distributional analysis/poverty and social impact analysis (PSIA), the transfer of payment is calibrated to maintain basic energy consumption for eligible households during the heating season and assessed to be sufficient to offset the average increase in monthly energy expenditures for low-income households. Complementary PA2 reforms in the electricity market are designed to promote competition, enhance service conditions and expand private participation, which are expected to generate medium-term welfare gains such as affordable and reliable energy access.

3.36 The reforms of SOEs and the establishment of the NIF (PA3), including the engagement of an international asset management firm to prepare for its IPO, are anticipated to promote private sector participation and attract green investments. The NIF aims to consolidate state assets and align corporate practices with OECD principles of corporate governance, IFRS and good international practices on environmental and social management.[26] While the transition may involve labor adjustments, any potential distributional impacts are mitigated through existing national social insurance and government's active labor markets, which provides income support, re-skilling, vocational training and entrepreneurship assistance for affected worker and households. Reforms on the establishment of clear rules for the creation of carbon credit system and an MRV framework for GHG emissions (PA4) in line with NDC will likely deliver positive distributional effects by accelerating emissions reductions and improving air quality, which disproportionately benefits low-income households and informal workers with lower adaptive capacity. Similarly, establishing the centralized NEEA with a funded work program (PA 5) and introducing financial incentives for solar, heat pumps, energy audits and performance-based building retrofits (PA 6) are expected to reduce household energy intensity, improve comfort and lower utility expenses over time. Establishing climate-sensitive procurement (PA7) may yield long-term social benefits by improving the quality of public services and stimulating markets for green products.

3.37 Further, across all PAs, the Program will utilize Uzbekistan's existing complaint handling mechanism. This includes village (*mahalla*) offices, district and regional channels and the nationwide President's Virtual reception. AIIB, in coordination with the WB, will verify the adequacy of measures during implementation, including monitoring the timeliness and verification of disbursement and tracking targeting accuracy, among others.

3.38 **Gender**. While the AIIB-supported policy actions under this Program do not include gender as a primary objective, several reform areas present opportunities for gender co-benefits aligned with the government's gender equality policy framework, such as the National Strategy on Gender Equality to 2030 and related action programs. PAs 5 and 6, which promote household-level energy efficiency and renewable energy adoption, can contribute to narrowing gender gaps in energy poverty and health outcomes, as women in Uzbekistan

[26] Government of Uzbekistan. 2024. Resolution of the President of the Republic of Uzbekistan: About formation of the National investment fund of the Republic of Uzbekistan. Aug. 27.

disproportionately bear the burden of household energy management and exposure to indoor air pollution.[27] Improved access to clean heating and energy-efficient technologies may reduce time poverty and improve living conditions, especially for female-headed households as women are the major users of water and energy for domestic activities.28 Electricity-market reforms (PA2) that enhance service quality and reliability may also reduce time losses from outages that disproportionately affect care and home-based work. Further, the government has already approved and adopted a gender-responsive National Climate Change Policy (NCCP) and Climate Change Gender Action Plan (CCGAP), which facilitates the integration of gender considerations into policies, programs and strategies.

D. Monitoring, Oversight and Accountability

3.39 **Monitoring and Oversight.** The MOEF, as the Program Executing Agency, will monitor the Program's implementation and progress. The MOEF will report to the Bank using the indicators and targets in the Policy and Results Matrix (Annex 1). AIIB, working in collaboration with the WB, will conduct Program monitoring. A single program completion report for the Program will be prepared by WB and AIIB after 12 months of the WB DPO series. The AIIB will leverage on WB, which uses its project teams on the ground to gather government data and field inputs as well as flag issues. This process is crucial for early warning and preventing backtracking.

3.40 **Governance and Anti-Corruption.** AIIB's Policy on Prohibited Practices applies to the Program. The legal agreement will incorporate adequate provisions to provide: (a) a definition of Excluded Expenditures in accordance with the Bank's OPF; (b) that the CPBF may not be used to finance Excluded Expenditures, as well as expenditures with respect to which the Bank determines that misuse of resources, theft or corrupt, fraudulent, collusive, obstructive or coercive practices has occurred and (b) recourse to the Bank in the event that the CPBF is used to finance Excluded Expenditures.

3.41 **Grievance Redress and Bank's Project-Affected People's Mechanism.** Individuals and communities who believe they are adversely affected by the Program may submit complaints to the responsible government authorities and the appropriate local/national grievance mechanisms.

3.42 People who believe they have been or are likely to be adversely affected by specific policies supported as Prior Actions under the Program—in situations when their concerns cannot be addressed satisfactorily through the local/national grievance mechanisms or the processes of the Bank's Management—can submit their concerns via the PPM. For information on AIIB's PPM, please visit: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

[27] World Bank. 2019. Energy Vulnerability in Female-headed Households: Findings from the Listening to Citizens of Uzbekistan Survey.
[28] Footnote 26.

E. Risks and Mitigation Measures

Table 1: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Political and Governance		
▪ Potential policy reversals or weak ownership and weak public sector capacity and fiduciary controls that can undermine reform implementation and sustainability.	M	▪ Potential policy reversal is mitigated by the programmatic design of the DPO, which creates incentives to continue reforms and safeguard against reversal and reform sustainability. ▪ The government has demonstrated an improved ability to manage and mitigate social challenges, showcasing robust economic governance while actively promoting citizen and media involvement. AIIB, the WB and other key development partners are committed to continuing collaboration with the government to enhance institutional capacity and ensure sustainable progress.
Macroeconomics		
▪ Impact of external economic volatility on government revenue and its ability to fund climate expenditures.	M	▪ Uzbekistan has already demonstrated resilience to these shocks. Nonetheless, with support from development partners, the government is committed to prudent monetary and fiscal policies and to support for green transition, while safeguarding vulnerable groups.
Implementation Capacity		
▪ Responsibility over the reforms is clearly assigned to ministries and agencies. However, a key risk to embedding the reforms are institutional capacity gaps to carry out the policies and to manage the fast-paced reforms, and the nascency of many critical Government institutions (such as NEEA).	H	▪ The government has reformed institutional frameworks to improve coordination and policy implementations, but implementation will need complementary capacity building. The government is working with the WB and other development partners to receive expert assistance and policy advice as well as technical assistance (TA). The WB is providing TA across several policy reform areas, with targeted support for new areas (for example: setting up grievance redress systems for sexual harassment). Coordination with other donors, such as KfW is active. Consultants are engaged for state aid registry, SOE agenda and procurement reforms. Not every prior action has an accompanying TA. Some areas proceed without TA due to existing capacity or other donor coverage.
Fiduciary Governance		

Risk Description	Assessment (H/M/L)	Mitigation Measures
▪ Public financial management risks: Delayed implementation of the medium-term fiscal planning and budgeting could cause misalignment between government priorities and budget allocation. Thereby resulting in inadequate budgetary allocation for prioritized programs.	M	▪ Since the PEFA 2024, the government has already started making progress on this front. In addition to the government's strong commitment to continually implementing the MTBF, several development partners are actively supporting the strengthening of this process.
▪ Weaknesses in public investment management (PIM) process could adversely impact the screening and selection of climate-change related projects and the overall intended climate-change impact.		▪ The public financial management reforms supported by various development partners include enhancing fiscal policies and regulations needed for climate public investment management.
▪ Inadequate accounting and reporting standards increase the risk of inaccurate financial reports, affecting the reliability of reported climate-related expenditures and revenues. Overall, such can lead to misrepresentations of the government's fiscal position and potentially obscure fiscal risks.		▪ With support from the ADB, a roadmap for transitioning to IPSAS was adopted in 2019. Progress is being made, with the goal of achieving full alignment by 2030.
▪ Lack of program-based classification may impede the process of tracking and reporting on climate related expenditures throughout the budget cycle.		▪ Green budgeting (tagging of expenditures) is already in place. Gradual expansion is underway across other ministries and agencies. AIIB is also supporting this Implementation under the Accelerating the Climate Transition for Green, Inclusive, and Resilient Economic Growth Sub-program 1.2 and 2.2.
Environmental and Social		
▪ Institutional capacity to manage downstream environmental and social risks and impacts related to the future increase in renewable energy	M	▪ The WB is providing TA across several policy reform areas, with targeted support for new areas (for example: setting up grievance redress systems for sexual harassment).

Risk Description	Assessment (H/M/L)	Mitigation Measures
investments. ▪ Risk of insufficient or delayed amendments to existing laws and regulations governing support for renewable energy production, rational energy use, energy efficiency, energy conservation and agricultural risk insurance, which could affect the implementation of the proposed reforms.		▪ Further dialogues and consultation with the WB and the government are recommended to ensure the government's capacity to assess, mitigate and management downstream environmental and social risks associated with the future increase in renewable energy infrastructure investments resulting from the reforms' outcomes.
Stakeholders		
▪ Potential stakeholder risks	M	▪ Key risks include challenges on institutional capacity and stakeholder volatility due to fast-paced reforms and the nascency of many critical government institutions, which may potentially delay project implementation. The government is addressing this risk through enhanced coordination frameworks, complementary capacity building and close collaboration with the WB and other partners for technical assistance and policy advice. AIIB Team will also closely coordinate with the WB for this specific challenge.

4. Next Steps

Milestones	Actual or Expected Completion Dates
Screening	June 11, 2025
Concept Review	Aug. 28, 2025
Appraisal Review	Oct. 9, 2025
Negotiation	Oct. 21, 2025
Board/President Approval	Nov. 19, 2025
Loan Signing	Nov. 21, 2025
Effectiveness	Nov. 24, 2025
First Disbursement	Nov. 30, 2025

Annex 1: Policy and Results Matrix (PRM)

Overall Program Objective: To help the Government of Uzbekistan implement key policy and governance reforms aimed at accelerating Uzbekistan's transition to a green economy.

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions. To reduce GHG emissions through energy efficiency measures and at the same time, increase private sector participation in the sector: (a) the government's local regional councils, since 31 October 2024, have raised district heating tariffs for households, businesses and public institutions which aggregate to weighted average increases of 36%, 92% and 136%, respectively, for networks in the six urban areas that supply over 85% of customers nationwide through Resolutions dated Oct. 31, 2024; Nov. 30, 2024; Dec. 20, 2024; Jan. 6, 2025; Feb. 11, 2025; and Aug. 18, 2025, as interim step to achieve full cost recovery in the heating sector by 2030. • **Indicative Trigger:** To reduce GHG emissions through energy efficiency measures and increase private sector participation, the government will: (a) improve the institutional process of tariff setting by establishing an Interdepartmental Commission under the Cabinet of Ministers that will take over the authority to set district heating tariffs from local governments, through a Resolution of the Cabinet of Ministers and (b) further increase heating tariffs for households, businesses and public institutions.	*Ministry of Economy and Finance*	*Weighted average cost recovery for district heating tariffs across all consumer groups*	*%*	*29% (October 2024)*	*45%*

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
These measures are expected to improve the governance of the district heating sector and transparency of the financial viability of district heating supply, thereby contribute to the sustainability of the cost recovery reforms.					
Prior Action 2: Moving towards a wholesale market in electricity and promoting renewable energy generation. To accelerate the liberalization of electricity markets and promote renewable energy generation, the government has approved amendments to Presidential Decree No. 166 dated Sep. 28, 2023, through Presidential Resolution No. 152 dated Aug. 29, 2025, which, inter alia, opens up the electricity distribution sector for private sector participation and enable independent renewable power producers to sell electricity directly to consumers. The amendments: (a) separate electricity distribution network operation and retail functions; (b) open up the operation of distribution networks – currently operated by “Regional Electric Power Networks” Joint Stock Company (JSC) – to private enterprises; (c) mandate the newly created “Energosavdo” branch of "Regional Electric Power Networks" JSC to become the retail electricity provider to all customers that cannot or choose not to buy electricity directly from the wholesale market and (d) designate that independent renewable power producers are allowed to sell electricity to the newly created central buyer—“Uzenergosotish" JSC—directly to eligible consumers.	*Ministry of Energy* *Ministry of Economy and Finance*	*(i) The share of customers served by privately operated electricity distribution networks* *(ii) Regulatory licensing of a private gas distribution operator*	*%* *Number*	*0% (2024)* *No regulatory framework for private sector participation in the gas distribution network (2024)*	*15%* *At least one privately owned gas distribution network operator has been licensed by the newly established has regulator*

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
• **Indicative Triggers:** *(i) Indicative Trigger 1:* To accelerate the liberalization of electricity markets to promote renewable energy generation, the government will issue Market Rules in the energy market to establish a mechanism enabling the Central Buyer model by defining clear rights, obligations and a streamlined process for licensing and data exchange among market players, through a Resolution of the Cabinet of Ministers; *(ii) Indicative Trigger 2:* To reduce GHG emissions through energy efficiency measures and increase private sector participation, the government will establish an independent natural gas regulator, through a Resolution of the Cabinet of Ministers.					
Prior Action 3: Supporting private investment by enhancing SOE reforms, competition and leveling the playing field. To accelerate SOE reforms, reduce the footprint of the state and strengthen the regulatory environment and competitive markets, the government has: (a) adopted Presidential Resolution No. 303 dated Aug. 27, 2024 to create the National Investment Fund (NIF) to manage state assets effectively and (b) contracted an international asset management company for the management and completion of the initial public offering (IPO) of the NIF through the Investment Management Agreement (IMA) signed in January 2025. • **Indicative Trigger:** To accelerate SOE reforms, reduce the footprint of the state and strengthen the	*State Asset Management Agency* *Ministry of Economy and Finance*	*Number of SOEs with public stakes between 20% and 40% that are part of the single IPO of the NIF* *Establishment of a publicly accessible state aid registry*	*Number* *Yes/No*	*0 (2025)* *No*	*15* *Yes*

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
regulatory environment and competitive markets, the government will launch the public auction and/or complete the privatization through direct sale in line with the Privatization Law of at least 3 large SOEs, identified in the privatization programs listed in Appendix 1 of Presidential Resolution No. 145 dated April 21, 2025 and Appendix 1 of Presidential Resolution No. 163 dated April 19, 2024.					
Prior Action 4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits. To incentivize GHG reductions, the government has adopted: (a) Presidential Decree No. 110 dated July 7, 2025 to set clear and transparent rules for the creation and trade in carbon credits and (b) Resolution of the Cabinet of Ministers No. 800 dated Nov. 30, 2024 to establish a system of monitoring, reporting and verification (MRV) for GHG emissions reduction in line with the NDC. • **Indicative Triggers:** *(i) Indicative Trigger 1:* To incentivize GHG reductions, the government will upgrade its fuel tax system into a carbon-based tax that will apply to selected energy intensive industries at a level that incentivizes energy efficiency and emissions reduction through a Resolution of the Cabinet of Ministers; and *(ii) Indicative Trigger 2:* To incentivize GHG reductions, the government will introduce fiscal measures to discourage the use of	*Ministry of Economy and Finance* *Ministry of Ecology, Environmental Protection and Climate Change* *Ministry of Energy*	*GHG reduced under the carbon market decree[29] and fuel price measures*	*Tons of CO_2 equivalent*	*0 (2024)*	*25 mtCO_2eq (end-2028)*

[29] GHG reductions for projects that have been reviewed and registered by authorities in the national register of carbon units per the decree.

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
low-grade and polluting motor gasoline (AI-80) with the aim of phasing out the fuel by 2028, through a Resolution of the Cabinet of Ministers.					
Prior Action 5: Boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency. To boost energy efficiency, the government has adopted: (a) Presidential Decree No. 63 dated March 27, 2025 to establish the National Energy Efficiency Agency (NEEA) with a clear mandate to implement a unified state policy for energy efficiency, regulate incentive programs and promote energy-saving initiatives to accelerate investment and encourage private capital and (b) Resolution of the Cabinet of Ministers No. 292 dated May 7, 2025 to establish a work program for 2025 and budget to initiate NEEA's activities. The Resolution also details the agency's near-term activities including targets, policies and financing instruments. • **Indicative Trigger:** To boost energy efficiency, the government will adopt revised building construction codes with more stringent energy efficiency requirements and a methodology to evaluate and categorize the energy efficiency performance of existing buildings, through a Resolution of the Cabinet of Ministers.	*Ministry of Economy and Finance* *National Energy Efficiency Agency*	*Private investment for energy efficiency through energy service companies (ESCOs) and investments based on energy service agreements (cumulative)*	*USD million*	*0 (2024)*	*USD10 million*

Prior Action	Implementing Entity	Results			
		Output Indicator	Unit of measurement	Baseline (Year)	Target (2028)
Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by the government. To develop green financing and boost energy efficiency, the government has adopted Presidential Resolution No. 77 dated Feb. 27, 2025 and Presidential Decree No. 63 dated March 27, 2025, introducing a package of financial incentives that cover: (a) green energy equipment such as solar panels, solar collectors and high-efficiency heat pumps; (b) financing for energy audits and (c) support for building renovation loans implemented through performance-based contracts. • **Indicative Trigger:** To develop green financing and boost energy efficiency, the government will incentivize emission abatement investments by establishing a rebate system on industrial pollution charges through a Resolution of the Cabinet of Ministers.	*Ministry of Economy and Finance* *Ministry of Energy*	*New distributed renewable energy capacity installed annually in homes and buildings*	*MW*	*971 (2024)*	*3,000*
Prior Action 7: Advancing the climate agenda through climate-sensitive public procurement. To promote green practices in public procurement, the government has adopted Resolution of the Cabinet of Ministers No. 371 dated June 18, 2025 and No. 230 dated April 15, 2025 to integrate environmental considerations into public procurement to enable government entities to leverage their procurement power to support sustainable development and prioritize procurement of “green” products.	*Ministry of Ecology, Environmental Protection and Climate Change* *Ministry of Economy and Finance*	*Share of the value of the green public procurement*	*%*	*5% (2024)*	*20%*

Annex 2: Reform Programs of ADB and WB

Reform Areas	ADB / AIIB *	WB / AIIB **
Strengthening Policies, Institutions and Regulation to Mainstream Climate Agenda	Subprogram 1 (2024): • Institutional framework (e.g., National Climate Council and National Center for Green Transformation and Adaptation to Climate Change) and enacting the national climate change policy, strategy and action plan. • Supporting the Central Bank of Uzbekistan approval of strategy on the management and supervision of climate-related financial risks in the banking sector. Subprogram 2 (2026): • National Strategy on Adaptation and Mitigation until 2030. • Long-term decarbonization strategy and carbon price framework, implementation strategy and road map and adoption of adaptive social protection. • National Carbon Credit Registry and digital platform for MRV. • Climate Change Gender Action Plan. • Fiscal risk management strategy to guide climate-resilient planning covering assignment of risks and investments in risk reduction, transfer and retention strategies • Green Skills and Jobs legislation.	DPO1 (2025): • Adoption of clear and transparent rules for creation and trading of carbon credits and establishment of the system for MRV for GHG emission reductions in line with NDC. Indicative DPO2: • Upgrade of fuel tax system into a carbon-based tax that will apply to selected energy intensive industries. • Fiscal measures to discourage the use of low-grade and polluting motor gasoline (AI-80) with the aim of phasing out the fuel by 2028.
Incentives for Climate Agenda	Subprogram 1 (2024): • Incentivize behavior towards a green transition through excise duties on gasoline with high content of harmful GHGs and heavy freight vehicles. • Amendment of Law on Tax and Budget Policy to: (a) implement advance disposal fees for tires with high environmental disposal costs; (b) heavy vehicles use tax on freight vehicles and trailers on highways responsible for emitting high GHG and (c) “green energy” certificates for confirming the production of electricity through RE sources	DPO1 (2025): • Approval of package of financial incentives for solar power, heat pumps and energy efficiency retrofits in buildings. Indicative DPO2: • Revised building construction codes with more stringent energy efficiency requirements and a methodology to evaluate and categorize the energy efficiency performance of existing buildings.

Reform Areas	ADB / AIIB *	WB / AIIB **
		• Incentivize emission abatement investments by establishing a rebate system on industrial pollution charges.
Mainstreaming Climate Agenda in Public Administration (including PFM and PIM)	Subprogram 1 (2024): • Support in mainstreaming climate and gender priorities into the strategic planning, fiscal and budgeting frameworks, program-based budgeting incorporating climate-related outcome indicators, PIM requiring climate impacts to be assessed for project screening, appraisal and approval process. • Incorporation and disclosure of climate fiscal risks in the Fiscal Risk Statement. Subprogram 2 (2026): • Intergovernmental climate change monitoring information and evaluation system. • Ex-ante impact assessments and performance indicators of green fiscal measures for national budgets proposals. • Publish ex-post spending reviews to assess program performance in relation to integrating climate and gender into budget decision making. • Require that climate risks are assessed and allocated in the preparation, design and implementation of all PPPs.	DPO1 (2025): • Regulation for climate sensitive procurement practices.
SOE Reform	Subprogram 1 (2024): • National Sustainability Reporting Framework comprising the IFRS on sustainability-related financial disclosures, IFRS standard on climate-related disclosures and Global Reporting Initiative framework for ESG reporting. Subprogram 2 (2026): • At least 25% of SOEs under the supervision of UzAssets will report: (a) sustainability related risks and climate-	DPO1 (2025): • Creation of NIF to manage state assets effectively and international asset management company for the management and completion of the IPO of the NIF. Indicative DPO2: • Public auction and/or completed the privatization of at least 3 large SOEs. • Defining the process of reviewing existing SOEs relying on Article 10 of the Law on State Property

Reform Areas	ADB / AIIB *	WB / AIIB **
	related risks in accordance with IFRS S1 and S2 and (b) publish ESG implementation roadmaps.	Management, publishing a list of at least 25 SOEs that underwent the review process, amending the Resolution of the Cabinet of Ministers No. 346, dated June 3, 2021, to comply with the requirements of Article 10 of the Law on State Property Management, and adopting a Resolution of the Cabinet of Ministers that introduces guidelines that define state aid, specifies the criteria to be used by CPCPC in its competition impact assessment of state aid and establishes the rules and procedures for notification, impact assessment, issuing of official opinion by CPCPC on proposed state aid.
Improving Water and Land Resources Management	Subprogram 1 (2024): • Adoption of: (a) Water Code unifying legal acts and norms to regulate water resource use and protection and (b) adopted the Water Resource Management and Irrigation Sector Development Strategy, 2024–2026 with support from the Swiss Agency for Development and Cooperation. • ADB's macro econometric modeling to analyze the impacts of climate-induced drought and water scarcity on the agriculture sector and support adaptive social protection measures. • Unified methodology for classifying pastures and assessing degradation of pasture lands.	
Agriculture	Subprogram 1 (2024): • Support for Law on Soil Protection establishing the institutional responsibilities for soil management; the rights and obligations of landowners, land users and land tenants; and establishing the legal foundation for curbing excessive chemical usage and promoting regenerative agricultural practices to increase soil fertility for irrigated land.	

Reform Areas	ADB / AIIB *	WB / AIIB **
	• Subsidy reform that incentivizes a productive and climate resilient agricultural economy (ADB, EU and World Bank). • Unified methodology for classifying pastures and assessing degradation of pasture lands. Subprogram 2 (2026): • Amendments to the 2019 Law on Pastures. • Long-term Pasture Management Strategy. • Climate and gender relevant investments in irrigation modernization. • Climate-resilient framework and asset management system. • Cost recovery mechanism to support sustainable management, operation and maintenance of irrigation. • Geoportal to monitor the manage degraded lands. • System to evaluate the allocative efficiency of agricultural subsidies. • Unified policy and budget oversight mechanism for the design and implementation of subsidy schemes. • Monitoring and evaluation system to track public fund usage. • Reform actions for a more effective and efficient subsidy framework. • Adaptive social protection system.	
Improving e-transport and mobility	Subprogram 1 (2024): • Strategy for the development of public transport in the regions until 2030, incorporating e-mobility and considering growing urbanization and private sector involvement. • Gender-inclusive strategy and action plan to ensure equal access, safety and security of public transportation. Subprogram 2 (2026):	

Reform Areas	ADB / AIIB *	WB / AIIB **
	• E-Mobility Strategy, including approval of: (a) technical e-mobility regulations and operational frameworks for the nationwide deployment of charging stations and establish charging station specifications and (b) end-of-life regulations structured around extended producer responsibility of battery waste to reduce scrappage-related climate problems	
Energy	Subprogram 1 (2024): • 2024 Law on Rationale Use of Energy, Increasing Energy Efficiency, and Energy Conservation Subprogram 2 (2026): • Energy efficient standards and labeling for energy-saving technologies, products and equipment.	DPO1 (2025): • Heating tariff reforms to strengthen cost recovery. • Transitioning to wholesale and retail electricity market. • Establishment of National Energy Efficiency Agency, along with work program and budget. Indicative DPO2: • Improving the institutional process of tariff setting by establishing an Interdepartmental Commission that will take over the authority to set district heating tariffs from local governments and further increase heating tariffs for households, businesses and public institutions. • Market Rules in the energy market to establish a mechanism enabling the Central Buyer model by defining clear rights, obligations and a streamlined process for licensing and data exchange among market players. • Independent gas regulator.
Social protection, labor markets, social inclusion and gender	Subprogram 1: • Integration of gender and climate into the medium-term fiscal strategy. • Mainstreaming climate and gender priorities into medium-term budget framework. • Adoption of program-based budgeting incorporating climate and gender related outcome indicators.	DPO1 (2025): • Increased compensation payments from electricity, heating and gas prices • Banned sexual harassment and violence in the workplace and introduced stronger grievance redress and provided paid leave for victims. • Granted fathers paid leave upon the birth of a child.

Reform Areas	ADB / AIIB *	WB / AIIB **
		• Prohibiting employers from refusing to hire, reducing wages, or dismissal women due to pregnancy or having children. • New law on social work. Indicative DPO2: • Parameters of maternity benefits for effective implementation of the Social Insurance Law; strengthening the GRM systems; and legal framework for the procedure of obtaining the status of a social worker and the requirements for a social worker.
ICT		DPO1 (2025): • Creation of an independent telecoms regulator.
Trade Facilitation (WTO accession)		DPO1 (2025): • Removal of tax incentives for exporters. • Removal of compensation for transportation expenses for exporters. • Abolishment of the export permits and introduction of export duties. • New law on food safety. • Elimination of 11 exclusive rights in several sectors, including in energy, oil and gas, chemicals and agricultural products. • Published the list of business entities that have been granted exclusive rights. Indicative DPO2: • Advance the implementation of the WTO Trade Facilitation Agreement by: (a) advancing trade automation and eliminating all remaining paper-based procedures; (b) reassessing the scope of the trade single window and (c) reviewing the two-step clearance process and promoting pre-arrival

Reform Areas	ADB / AIIB *	WB / AIIB **
		processing and immediate release of low-risk cargo at borders.

Notes:
*In addition to the Subprograms 1 and 2 operations, ADB had previously implemented a USD200 million policy-based loan (PBL) in 2020 to strengthen Uzbekistan's power sector to improve its financial sustainability, enable competition and support private investment. The reforms included establishing the MOE as the new sector regulatory and policymaking entity and the unbundling of "Uzbekenergo" JSC. Further, in 2019, ADB also approved a USD200 million Mortgage Market Sector Development Program, which includes a US50 million PBL.
**AIIB is only co-financing the climate-related reforms under DPO1 and DPO2.

Annex 3: Paris Agreement and Climate Finance Assessment

Paris Alignment

The Program aligned with the goals of the Paris Agreement. Policy reforms financed under the Program are consistent with the Government of Uzbekistan's climate priorities and support the government's key policy and governance reforms to accelerate its transition to a green economy. The Program's prior actions are consistent with Uzbekistan's climate commitments as detailed in its second Nationally Determined Contributions (NDC, 2021) and the "Strategy for the Transition of the Republic of Uzbekistan to a Green Economy for 2019-2030."

Step 1: Assessing Consistency with Uzbekistan's Climate Priorities

Uzbekistan's key climate mitigation challenge is to decouple economic growth from greenhouse gas (GHG) emissions and reduce its emission intensity. It is one of the most energy-intensive and resource-intensive in the world, largely due to its reliance on natural gas, which accounts for 86% of its primary energy supply. Other factors contributing to this intensity include inefficient industrial processes, outdated buildings, energy-intensive water irrigation and an aging transportation network. Uzbekistan's second NDC (2021) aims to reduce emissions intensity per unit of gross domestic product (GDP) by 35% below 2010 levels by 2030. The Program's prior actions will help achieve this goal by promoting improved energy efficiency, increased renewable energy adoption, creating a carbon market and other decarbonization measures.

Uzbekistan is vulnerable to climate change due to its resource-intensive economy and dependence on natural resources. Significant increases are projected in average temperatures (around 4.8°C by the 2090s) as well as a high probability of severe droughts by the end of the century. These changes, coupled with potential water scarcity from glacier melt, are expected to reduce crop production, pose health threats like heat stress and disease and negatively impact economic growth.

Step 2: Assessing the BB1 (Mitigation) and BB2 (Adaptation and Resilience) Alignment of the Reform Program

The Program includes seven prior actions that support Uzbekistan's climate goals and green economy transition. These actions are part of two reform pillars defined by the Development Policy Operation (DPO) of the World Bank (WB), which are: *Pillar 1: Creating Markets, Advancing Global Integration, and Fostering Private Sector Growth and Job Creation*; and *Pillar 2: Supporting the Green Economy and Social Inclusion*. The WB has assessed all prior actions under its DPO as Paris Aligned, noting that the Asian Infrastructure and Investment Bank (AIIB) and the WB use the same methodology developed jointly by the multilateral development bank (MDBs)[30] for the assessment.

[30] Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations - Policy-based Lending Operations

Mitigation (BB1)

The Program's policy actions support the mitigation goals of the Paris Agreement by either directly contributing to the reduction of GHG emissions and Uzbekistan's long-term decarbonization or creating an enabling market and regulatory environment for it.

- Prior Action 1: Aims to reduce GHG emissions through increased energy efficiency incentivized by increasing district heating tariffs for households, businesses and public institutions. The government has also approved a presidential resolution to gradually increase heating tariffs to reach cost recovery by 2030.
- Prior Action 2: Accelerates the market transition for electricity and promotes renewable energy generation by delegating responsibility for distribution networks to private enterprises, allowing independent renewable power producers to sell electricity to a newly created company or directly to large consumers and regulate the use of natural gas through an independent agency.
- Prior Action 4: Advances the low-carbon economic transition by setting rules for establishing a market for trading carbon credits, including through the upgrade of the fuel tax into a carbon-based tax system, and a system for monitoring, reporting and verification (MRV) of GHG emissions reductions in line with Uzbekistan's NDC.
- Prior Action 5: Boosts energy efficiency by establishing the National Energy Efficiency Agency with a clear mandate to accelerate energy efficiency investments and reporting, as well as by adopting energy efficient building construction codes.
- Prior Action 6: Introduces financial incentives to improve energy efficiency and increase renewable energy generation, including incentives for solar power, efficient heat pumps and other low-carbon equipment, energy audits and energy efficiency retrofits in buildings.
- Prior Actions 3 and 7: Indirectly support mitigation goals by creating competition, efficiency and space for private investments through SOE reforms and promoting green public procurement that is climate-sensitive, respectively.

Adaptation and Resilience (BB2)

- Risks from climate hazards are unlikely to have an adverse effect on the Program. Prior Actions 1, 2, 4, 5 and 6 are unlikely to be significantly impacted by the effects of climate change in Uzbekistan.
- The Program also supports adaptation and resilience goals. Prior Actions 3 and 7 indirectly support adaptation and resilience goals by creating a more competitive private sector and promoting climate-sensitive public procurement practices.

The Program's design, therefore, reflects climate resilience/adaptation good practices that respond to current or future physical climate change effects.

Climate Finance

Contributing to AIIB's 50% climate finance target in its Corporate Strategy and applying the joint MDB climate finance tracking methodology, USD357 million or 71% of AIIB's financing corresponding to the following policy prior actions can be counted as climate mitigation finance:

- Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions.

- Prior Action 2: Moving toward a wholesale market in electricity and promoting renewable energy generation.
- Prior Action 4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits.
- Prior Action 5: Boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency.
- Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by the government.

Annex 4: Prior Actions and Analytical Underpinnings

Prior Action	Analytical Underpinnings
Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions	The following studies highlight tariff reform – coupled with targeted social protection and energy efficiency measures – as a lever to move the heating sector towards sustainability in Europe and Central Asia (ECA) Region, including Uzbekistan. Artificially low tariffs encourage continued use of fossil fuels, which effectively locks households into carbon-intensive systems. This delays the shift to renewable heat sources (like geothermal, biomass, or electrification with clean grids) and undermines climate targets. World Bank, 2023. Europe and Central Asia: Toward a Framework for the Sustainable Heating Transition. World Bank, 2021. Urban Heating Master Plan for the City and Region of Namangan, Uzbekistan.
Prior Action 2: Moving toward a wholesale market in electricity and promoting renewable energy generation	The following lays out a general model for power sector reform and market design. The InfraSAP provides economy-specific context and infrastructure reforms. World Bank, 2022. A Conceptual Roadmap for Electricity Sector Reform - Power sector institutional reform and market design. World Bank, forthcoming. Uzbekistan Infrastructure Sector Assessment Program (InfraSAP).
Prior Action 3: Supporting private investments by enhancing state-owned enterprise (SOE) reforms, competition and leveling the playing field	The following highlights the potential for services-led growth, shift from a state-driven to a private sector-led economy, and the need for SOE reform (improving governance, transparency, and efficiency) to unlock competition, attract investment and reduce fiscal risks. World Bank, 2024. At Your Service: The promise of Services-led growth in Uzbekistan. World Bank, 2024. Uzbekistan Country Economic Memorandum: Fostering Private Sector-led Growth and Global Integration. World Bank, 2023. Uzbekistan: Integrated State-Owned Enterprises Framework (iSOEF) Assessment.
Prior Action 4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits	Together, the following map out Uzbekistan's climate and green growth agenda. World Bank, 2025. Report on Uzbekistan's Long-Term Strategy for Decarbonization.

Prior Action	Analytical Underpinnings
	World Bank, 2023. Innovative Carbon Resource Application for Energy Transition Project (P180432). Project Appraisal Document. World Bank, 2022. Green Growth in Uzbekistan: Opportunities and Challenges (Country Environmental Analysis). World Bank, 2021. Climate Risk Country Profile – Uzbekistan.
Prior Action 5: Improving energy reporting and boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency	The following focus on Uzbekistan's buildings and heating and cooling sectors, showing how energy efficiency can reduce emissions and lower costs. World Bank, 2022. National Program for Buildings Energy Efficiency Improvement in Uzbekistan - Program Description Report, Washington, D.C. World Bank, 2024. Uzbekistan Country Climate and Development Report, Washington, D.C. World Bank, forthcoming. Techno-Economic Assessment of Sustainable Heating and Cooling Solutions for Uzbekistan by 2050, Washington, D.C.
Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by the government	The following map Uzbekistan's climate finance, governance and commitments mobilizing state funds, defining a green taxonomy, strengthening institutions, scaling clean energy in buildings and implementing national climate targets under the Paris Agreement. World Bank, 2025. Prime Picks for a Green Pivot: Uzbekistan State Funds for Climate Action. World Bank, 2024. Guidance Note on Uzbekistan Green Taxonomy. World Bank, 2023. Uzbekistan Climate Change Institutional Assessment. World Bank, 2022. Clean Energy for Buildings in Uzbekistan (P176060). Government of Uzbekistan, 2021. Updated Nationally Determined Contribution.
Prior Action 7: Advancing the climate agenda through climate-sensitive public procurement	The following takes stock of procurement reforms globally and how governments are embedding sustainability into procurement as a tool for climate and development goals.

Prior Action	Analytical Underpinnings
	World Bank, 2022. An International Stocktaking of Developments in Public Procurement. UNEP, 2022. Current State of Sustainable Procurement and Progress in National Governments.

Annex 5: Environmental and Social Matrix

Prior Action	Likely environmental impact	Likely social impact
Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions	Will have a positive impact by reducing GHG emissions through energy efficiency measures and increasing private sector participation. Higher tariffs may have a negative environmental impact by pushing poor households to less environmentally friendly alternatives such as fuel wood. This is expected to provide mitigation measures to PA2 by protecting low-income households from the energy tariff increase. Generation of renewable energy will have a positive impact by reducing GHG emissions by supporting reforms to scale up renewable power generation and enabling grid investments.	Regressive but mitigated adverse impacts with compensation measures. While the implementation of district heating tariff adjustment together with the 2025 tariff increases in electricity and gas has the highest risk of negativity affecting poor households, the accompanying compensation measures to low-income households will mitigate any adverse effects. To address potential negative impacts of tariff reforms in district-heating, gas and electricity, a one-time cash transfer of UZS1,000,000 will be delivered in November 2025. In addition to the recipients of the low-income family assistance (LIFA) and other vulnerable households who are identified by mahalla officials, families registered in the “Registry of Poor Families” are newly eligible for this year’s cash transfer. The amount of one-time cash compensation is sufficient to offset the average increase in monthly energy expenditures for the low-income households during the heating season. According to the Household Budget Survey (2024), only 3.2% of households in the 40th percentile of the income distribution is connected to district heating and the average increase of their district heating costs during the heating season is about UZS144,000. Despite the additional financial burden from gas and electricity tariff increase in May 2025,[31] this year’s cash transfer will mitigate negative impacts of energy tariff increases and progressively redistribute fiscal savings from the reduction of
Prior Action 2: Moving towards a wholesale market in electricity and promoting renewable energy generation		

[31] Roughly 70% and 90% of vulnerable households (beneficiaries of LIFA included in the Single Registry of Social Protection) consume gas and electricity under the social norm and their average increase in gas and electricity bills during the heating months is estimated at UZS400,000.

Prior Action	Likely environmental impact	Likely social impact
		energy subsidies to vulnerable households.
Prior Action 3: Supporting private investment by enhancing SOE reforms, competition and leveling the playing field	Will have a neutral environmental impact as it will strengthen the institutional framework in the SOE sectors, including mining, oil and gas, natural gas and transportation (aviation, railways, automotive).	Positive impact This PA can deliver substantial economic gains and positive distributional effects as mitigation exists in the form of a comprehensive social insurance (e.g., unemployment benefits) and active labor market policies under the government's anti-poverty programs supporting vocational training and entrepreneurship support to households, including subsidized access to finance.
Prior Action 4: Advancing energy efficiency, low-carbon economic transition and reductions in GHG emissions through setting the rules for carbon credits	Will have positive impacts by promoting reduction of GHG emissions and green growth which will in turn contribute positively to air quality.	Positive impact The recent air quality study of Uzbekistan estimated losses of welfare of population at USD488 million per year due to PM2.5 pollution and air pollution could disproportionally impact low-income households' well-being.[32,33] In Uzbekistan, a higher share of low-income earners are engaged in agriculture, construction and other informal jobs that are often exposed to the air pollution more frequently. Despite higher exposure to air pollution, poorer households have lower adaptive capacity due to lack of knowledge, funding and access to health care services. The proposed prior actions of incentives for GHG reduction and GHG monitoring system are expected to reduce unequally higher adverse impacts of air pollution on low-income households' well-being.
Prior Action 5: Improving energy reporting and	Will have positive impacts by promoting reduction of GHG emissions and green growth which will in turn contribute positively to air quality.	Positive impact

32 World Bank (2024). Air Quality Assessment for Tashkent and the Roadmap for Air Quality Management Improvement in Uzbekistan.
33 A distributional study of air pollution in Tbilisi (2024) indicated that poorer households are more vulnerable due to longer outdoor work and higher exposure to indoor air pollution.

Prior Action	Likely environmental impact	Likely social impact
boosting energy efficiency by establishing a national agency with a dedicated mandate on energy efficiency		According to the Listening to the Citizens of Uzbekistan (L2CU) survey, approximately 30% of low-income households are concerned about utility payments following an increase in energy tariffs and they are 40% more likely to experience electricity disruptions. The supported actions aimed at energy efficiency in the residential sector could contribute to providing sustainable energy connections and lowering utility costs for vulnerable households by reducing energy usage through improved energy efficiency.
Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by the government		
Prior Action 7: Advancing the climate agenda through climate-sensitive public procurement	Will have positive impacts by promoting reduction of GHG emissions and green growth which will in turn contribute positively to air quality.	Positive

Source: World Bank Program Document.

Annex 6: Required Accompanying Documents

A. The Borrower's Development Policy Letter

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Mr. Jin Liqun
President
Asian Infrastructure Investment Bank
Beijing, China

Letter of Development Policy

Dear Mr. Liqun,

I am pleased to present to you the government's new structural reforms program. The program will help implement key policy and governance reforms aimed at accelerating the country's transition to a green economy and helping it achieve its climate targets under its updated Nationally Determined Contribution (NDC, 2021) under the Paris Agreement. The program reflected in this new programmatic Climate Policy-Based Financing (CPBF) prepared for 2025-2026 breaks new ground in our continuous collaboration with the Asian Infrastructure Investment Bank (AIIB) on policy reforms, based on our commitment to an inclusive, low carbon, and green market transition. The program supports our request for a "Green and Resilient Market Economy CPBF" loan of USD 500 million, which will be the first in a programmatic series of two CPBF loans in co-financing with the World Bank. This new program builds on previous policy-based loans, which are being implemented in parallel.

In announcing to you this new program, please allow me to highlight the key transformations underway now in Uzbekistan with the leadership of His Excellency President Shavkat Mirziyoyev. The economy has more than doubled in size in just seven years, from USD 53 billion in 2017 to USD 115 billion in 2024. Special attention has been given to an open investment policy, which has led to a near tripling in the number of enterprises with foreign participation from 5,500 to 14,800. We have also successfully reduced the poverty rate significantly, from 17 percent in 2021 to 8.9 percent in 2024. Our close and robust partnership with the AIIB has been instrumental in supporting and accelerating the success of our

reform ambitions. We are unwavering in our commitment to create the best future for our people and seeing our economy grow rapidly and equitably to become an upper-middle-income economy by 2030.

As you know, Uzbekistan has strived, since 2017, to fundamentally reform its economy by adopting a market-based and green economy system with a focus on shared prosperity. Our vision for Uzbekistan 2030 is for a prosperous and green economy based on free market principles, a robust civil society, and good living conditions for all, especially the most vulnerable in our society.

The transition to a green economy – low-carbon, resource-efficient, resilient, and socially and environmentally sustainable – is central to Uzbekistan's development agenda. Towards this end, his Excellency President Shavkat Mirziyoyev has declared 2025 as the "Year of Environmental Protection and Green Economy" underscoring the pressing global issues of air and water pollution, soil erosion, desertification, and the overuse of fossil fuels. These factors contribute to climate change, an increase in natural disasters, and pose significant threats to both the environment and public health. To address these challenges, Uzbekistan has already launched several initiatives. The "Yashil Makon" (Green Space) national project was introduced three years ago to combat environmental degradation. Uzbekistan's active role on the global stage was further emphasized as it initiated two key UN resolutions related to climate action. Moreover, the country is rapidly advancing its green energy sector, positioning it as a key driver of economic growth.

Uzbekistan is raising its ambition on climate change. By the end of this year, the total installed capacity of renewable energy sources (RES) (excluding hydropower) will reach 6.9 gigawatts, enabling the country to achieve 22 percent share of RES in total generation (including hydropower), which we aim to increase to 54 percent by 2030. Achieving these goals will require the adoption of new technologies and resource management methods.

Over the past 5 years, we have attracted almost USD 29 billion of foreign investment into energy sector and built 9.1 gigawatts new energy capacity. More than 76 major projects with 29 gigawatts energy capacity and worth over USD 28.5 billion are underway with foreign partners contributing to the goal of reaching 54 percent renewable energy generation by 2030.

We are developing a long-term Low-Carbon Development Strategy until 2055 and a National Green Finance Program. We will also introduce Measurement, Reporting and Verification System and National Emissions Trading System.

This CPBF, the first in a programmatic series of two operations, plays a key role in supporting the government's reform agenda aimed at helping transform Uzbekistan's

economy into a low carbon and green economy through: Scaling of renewable energy generation and utilization and energy efficiency improvements; Supporting private investment by enhancing SOE reforms, competition, and leveling the playing field; and, Advancing energy efficiency, low-carbon economic transition, and reductions in greenhouse gas (GHG) emissions.

Scaling of renewable energy generation and utilization and energy efficiency improvements

In the energy sector, we have continued our major reforms on establishing a cost-recovery basis for energy tariffs. In this program, we are now addressing heating tariffs to reach cost recovery by 2030, alongside electricity and gas. In addition, we are establishing a framework that will enable a functioning and competitive wholesale electricity market, which will support the entry of new private power providers, particularly of renewable energy.

In the next phase of the reforms, we will establish an Interdepartmental Commission to assume responsibility for setting district heating tariffs from local governments, ensuring more effective reform implementation. Additionally, Wholesale Market Rules will be issued in the electricity sector to facilitate the Central Buyer model by clearly defining rights, obligations, and an efficient process for licensing and data exchange among market participants. A natural gas regulator will also be established to further advance reforms within the energy sector.

We also have approved a package of financial incentives for solar power, heat pumps, and energy efficiency retrofits in buildings to develop green financing and boost energy efficiency.

Supporting private investment by enhancing SOE reforms, competition, and leveling the playing field

A critical yet difficult pillar of our ongoing reforms is to reduce the size of the government's holdings of SOEs. Reforming SOEs is not just about improving competition and leveling the playing field, but also an alignment with climate goals, through the adoption of environmental, social, and corporate governance (ESG) standards.

In this context, I am pleased to inform you of a major new privatization drive that the President has launched. This privatization program is the largest and most comprehensive government initiative on privatization in recent years. There is also greater emphasis on reputable, professional companies to oversee the processes and the involvement of international investors and market placements.

On April 21, 2025, Presidential Decree No. 70 "On the Privatization Program for 2025" and Presidential Resolution No. 145 "On the Privatization of Large Enterprises with State Participation on International Markets" were adopted. On April 19, 2024, Presidential Resolution No. 163 "On measures to transform and accelerate the privatization processes of large enterprises with state participation" was adopted. The plan includes an expanded program of privatization to state assets including 34 large SOEs through public auctions, many of them are majority stakes, with the mandatory engagement of "Big four" companies to assess bids. The list of SOEs for privatization includes large SOEs in the industrial, energy, and financial sectors, including UzAuto.

In the next 12 months alone, we plan to launch the public auction and/or complete the privatization of at least three of these assets. We are also preparing the privatization strategy for the largest chemical producer in the country - Navoiazot.

A second key pillar of our privatization strategy is to pursue active reform of companies and their public listing on top international stock exchanges with the involvement of top financial advisory companies. As part of our broad reforms on reducing the role of the state in the economy, to accelerate SOE reforms and strengthen competitive markets, we have set up the National Investment Fund (NIF) to manage 18 state-owned assets effectively, and contracted an international asset management company for the management and completion of the Initial Public Offering (IPO) of the Fund. The NIF is mandated to increase the market value of its assets, attract private investments through Initial and Subsequent Public Offerings of the Fund, and support the companies' privatization. The NIF is expected to adhere to the OECD corporate governance standards and the IFRS reporting standards, as well as integrating ESG principles – which include climate goals – into the management of its assets. We intend to float the NIF on both the Tashkent and London stock exchanges by the end of 2026.

Also, we are expanding our efforts to ensure a level playing field for all firms and competitive neutrality, whether state owned or private. We are in the process of streamlining the process of competition impact assessment of existing SOEs to decide whether to keep them under state ownership, or to restructure, divest, privatize, or liquidate them, and to ensure that the Competition Policy and Consumer Protection Committee's (CPCPC) opinion on competition impact of SOEs is taken into consideration. To further promote competition and boost private sector growth, we will introduce guidelines on state aid based on good international practices, rules and procedures for notification, approval, and duly recording of state aid measures by establishing a registry of state aid and hence increase its transparency.

Advancing energy efficiency, low-carbon economic transition, and reductions in GHG emissions

As part of our efforts to increase energy efficiency, we have introduced rules for the creation and trade of carbon credits and to mobilize financing to incentivize GHG reductions through a Presidential Decree, and adopted the framework to establish a system of monitoring, reporting and verification (MRV) of GHG emissions.

We introduced new regulations to give preference to sustainable and green approach while conducting public procurement.

As a next step, we will introduce carbon tax on selected industries to incentivize further adoption of low-emitting technologies, phase out the use of low-grade polluting gasoline, and set stricter energy efficiency standards for buildings.

Conclusion

This programmatic CPBF represents a significant step in Uzbekistan's green and low carbon economic transformation journey. Our will to successfully deliver on Uzbekistan's ambition reform goals remains strong. The reforms I am presenting to you here are reflective of our commitment to continue reforms that we started. The AIIB is our trusted and dependable partner in this reform process. I hope that as we move forward with new waves of critical reforms, we can continue to count on the AIIB's support.

I would like to extend appreciation of the government of the Republic of Uzbekistan for the continued partnership and support AIIB has provided in meeting Uzbekistan's development goals. I look forward for our continued work with you and your team, while we await your visit to Uzbekistan.

Sincerely,

Ilkhomjon Umrzakov

Deputy Minister of Economy and Finance
of the Republic of Uzbekistan

B. International Monetary Fund Assessment Letter (IMF Article IV Consultation)

PRESS RELEASE

PR 25/206

IMF Executive Board Concludes 2025 Article IV Consultation with the Republic of Uzbekistan

FOR IMMEDIATE RELEASE

- *Uzbekistan's economic performance has remained strong, with robust growth, narrowing consolidated fiscal and current account deficits, and ample international reserves.*
- *Despite elevated external uncertainty, growth is projected to stay robust amid ongoing reforms and strong remittances, while inflation is expected to moderate under tight macroeconomic and macroprudential policies.*
- *The priorities ahead are to cement macro-financial stability and continue with the economic reform agenda to reduce the state's footprint while fostering private sector-led and inclusive growth.*

Washington, DC - June 18, 2025: On June 16, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Republic of Uzbekistan.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Uzbekistan's economic performance has remained strong. Real GDP growth stood at 6.5 percent in 2024, underpinned by robust domestic demand, and remained buoyant at 6.8 percent year-on-year in the first quarter of 2025. Inflation had trended downward through end-April 2024 but rose to 10.6 percent year-on-year in May 2024 that saw the implementation of needed energy price reform. By end-April 2025, it has only marginally eased to 10.1 percent. The current account deficit narrowed by 2.6 percentage points of GDP to about 5.0 percent in 2024, driven by strong remittances, rapidly growing non-gold exports, favorable commodity prices, and the unwinding of a one-off spike in imports in 2023. International reserves have remained ample. The consolidated fiscal deficit narrowed by 1.7 percentage points of GDP to 3.2 percent of GDP in 2024, largely on the back of growth-friendly expenditure measures, although borrowing and spending from the broader public sector were higher than anticipated.

The outlook remains broadly positive. Despite heightened global trade policy uncertainty, real GDP growth is projected to remain robust under the baseline, at close to 6 percent this year

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Uzbekistan page.

and next, supported by sustained strength in private consumption, investment, and advancement of structural reforms. The latter, continued tight monetary and macroprudential policies, and solidified fiscal discipline are expected to reduce inflation to the Central Bank of Uzbekistan's (CBU) 5 percent target by end-2027. The external current account deficit is foreseen to stay at or slightly below 5 percent over 2025-26 while international reserves are expected to remain adequate, at 9.2 months of imports by end-2026.

Downside risks to the outlook include prolonged and deeper trade policy shocks, more volatile commodity prices, tighter external financing, and contingent liabilities from state-owned enterprises and banks, and public-private partnerships. On the upside, opportunities stem from faster implementation of structural reforms, stronger inflows of income and capital, and favorable commodity prices.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Uzbekistan's positive economic outlook amid continued progress in the transition to a market-oriented economy. Directors noted, however, that significant vulnerabilities persist, including from the still large state footprint in the economy and rising external uncertainty. Against this background, they emphasized the importance of sustaining the momentum in structural and institutional reforms, supported by Fund technical assistance, to entrench macroeconomic stability and maintain robust and resilient growth.

Directors commended the authorities for the significant fiscal consolidation achieved. They broadly called for reversing the decline in the tax-to-GDP ratio and improving expenditure efficiency to create fiscal space for priority social and development needs. Directors stressed the importance of adhering to external borrowing limits and avoiding government spending procyclicality in response to high gold prices to support inflation reduction. They also advised improving monitoring and management of fiscal risks from SOEs and public-private partnerships and further strengthening PFM and fiscal transparency.

Directors welcomed the commitment of the Central Bank of Uzbekistan (CBU) to reduce inflation. They agreed that monetary policy should remain data driven and be tightened further if core inflation or inflation expectations do not decline. Directors encouraged the CBU to continue strengthening communication and monetary policy transmission. They also recommended adopting greater exchange rate flexibility and implementing outstanding safeguards recommendations to strengthen central bank governance and independence.

Directors called for enhancing bank supervision and regulation to safeguard financial stability, while reducing the state's role in the financial sector. In this regard, they recommended bolstering the commercial orientation of state banks and their corporate governance, phasing out directed and preferential lending, and expediting and expanding privatization efforts. Directors also advised the authorities to strengthen asset classification, NPL reporting and resolution, and the regulatory, supervisory, crisis management, and AML/CFT frameworks following the recommendations of the country's first Financial Sector Assessment Program.

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[3] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Additional macroprudential measures could help mitigate risks from rapid growth in microcredit.

Directors encouraged deepening and accelerating structural reforms. While welcoming the progress with WTO accession and energy sector reform, they emphasized that it will be essential to complete price and trade liberalization, phase out support to SOEs, and accelerate privatizations while carrying them out in line with international best practices. Directors called on the authorities to make further progress in governance reforms, including improvements in transparency and accountability and the approval of the National Anti-Corruption Strategy. Closing data gaps and improving data quality remain priorities.

It is expected that the next Article IV consultation with Uzbekistan will be held on the standard 12-month cycle.