

Climate – Focused Policy-Based Financing Program

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

Environmental and Social Assessment of the Prior Actions Supported by the Program

Prior Action (PA)	Likely Environmental Impacts	Likely Social Impacts
Prior Action 1: Increasing energy prices to cost recovery to incentivize energy efficiency and reduce GHG emissions	<p>Will have a positive impact by reducing GHG emissions through energy efficiency measures and increasing private sector participation.</p> <p>Higher tariffs may have a negative environmental impact by pushing poor households to less environmentally friendly alternatives such as fuel wood.</p>	<p>Regressive but mitigated adverse impacts with compensation measures.</p> <p>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 UZS 1,000,000 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.</p>
Prior Action 2: Moving towards a wholesale market in electricity and promoting renewable energy generation	<p>This is expected to provide mitigation measures to PA2 by protecting low-income households from the energy tariff increase.</p> <p>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.</p>	<p>According to the Household Budget Survey (2024), only 3.2 percent 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</p>

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		increase in May 2025 ¹ , this year's cash transfer will mitigate negative impacts of energy tariff increases and progressively redistribute fiscal savings from the reduction of 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 & gas, natural gas, and transportation (aviation, railways, automotive).	<p>Positive impact</p> <p>This PA can deliver substantial economic gains and positive distributional effects as mitigation exists in the form of 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.</p>
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.	<p>Positive impact</p> <p>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 disproportionately impact low-income households' well-being.^{2,3}</p> <p>In Uzbekistan, a higher share of low-income earners is 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</p>

¹ 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.

² World Bank (2024). Air Quality Assessment for Tashkent and the Roadmap for Air Quality Management Improvement in Uzbekistan

³ 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.

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		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.
<p>Prior Action 5: Improving energy reporting and boosting energy efficiency through establishing a national agency with a dedicated mandate on energy efficiency</p> <p>Prior Action 6: Improving energy efficiency and increasing renewable energy generation and utilization through provision of financial incentives by GoU</p>	Will have positive impacts by promoting reduction of GHG emissions and green growth which will in turn contribute positively to air quality.	<p>Positive impact</p> <p>According to the Listening to the Citizens of Uzbekistan (L2CU) survey, approximately 30 percent of low-income households are concerned about utility payments following an increase in energy tariffs, and they are 40 percent 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.</p>
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 impact