COUNTRY PRIVATE SECTOR DIAGNOSTICS

Creating Markets in Uzbekistan

World Bank Group Presentation to the Government of Uzbekistan

FOCUS: IMPLEMENTATION UPDATE

TASHKENT
February 18, 2019
OBJECTIVES

CREATING MARKETS IN UZBEKISTAN

The Country Private Sector Diagnostic is a tool that:

- Identifies opportunities for expanding the private sector’s contribution to sustainable economic growth.
- Highlights the main constraints to unleash private sector potential.
- Uses a bottom up approach: it puts forward concrete recommendations and solutions by leveraging private sector’s experience and knowledge.
- Informs the WBG on the implementation of the Maximizing Finance for Development following the “cascade” approach, one country and one sector at a time.
- Through sector deep dives, it provides the basis for developing Joint Implementation Plans.
- Is a critical input to the SCD and CPF, and the IFC country strategy.
UZBEKISTAN’S DEVELOPMENT DEFICITS: 4 ES

1 EMPLOYMENT
Low private-sector employment.

Share of working-age population with a formal private sector job

2 ENTERPRISE
Firms are not expanding.

Number of firms by size, 2013 and 2016

<table>
<thead>
<tr>
<th>Size</th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large firms</td>
<td>3,050</td>
<td>2,300</td>
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<tr>
<td>Small firms</td>
<td>190,000</td>
<td>210,000</td>
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3 EXPORTS
Stagnating share of exports in GDP.

Exports, US$ and % of GDP, 1990-2017

4 ENERGY AND RESOURCES EFFICIENCY
Production is highly energy and water intensive, but resources are scarce.

Comparison of water intensity and water scarcity
SCANNING FOR MARKET POSSIBILITIES
MARKET POSSIBILITIES

OPENING MARKETS

New opportunities

Highest and most plentiful

ICT and ICT-enabled services
Retail chains and food producers
Transport infrastructure and connectivity

Horticulture and agriprocessing

Financial products
Tourism

Sectors with existing development

Low hanging
Extractive Industries

Already competitive, with strong exports and FDI

Hardest to reach

Apparel
Textiles
Cotton
MARKET POSSIBILITIES

SECTORS IDENTIFIED FOR IMMEDIATE ACTION

AIR CONNECTIVITY
Rationale: Double-landlocked economy needs low cost air connectivity.
Challenge: Uzbekistan has too few connections and is too expensive

ICT
Rationale: The digital economy is driving future productivity and technological innovation
Challenge: Uzbekistan broadband coverage is low; costs are prohibitive for most citizens

CHEMICALS
Rationale: Chemical sector has an absolute advantage due to natural resources.
Challenge: Modernization is critical to competitiveness and energy efficiency, where Uzbekistan is performing poorly.

HORTICULTURE
Rationale: Uzbekistan can be Asia’s California. Agro-climatic conditions are ideal for horticulture exports.
Challenge: Policies hindered farmers to scale horticulture investments and export; standards need upgrading to enter profitable markets
AN AGENDA FOR IMPLEMENTATION

September 2018
MAIN RECOMMENDATIONS

KEY REFORMS AND MEASURES FOR CREATING MARKETS IN DEEP-DIVE SECTORS

**AIR CONNECTIVITY**
- Unbundle Uzbekistan Airways and restructure the company’s core airline business.
- Establish independent policymaking body, separate from safety regulator.
- Liberalize air-service agreements.

**ICT**
- Modernize existing regulations and control functions, and liberalize the ICT gateway
- Enforce open and equal access to Uztelecom’s last mile infrastructure.
- Reduce the prices that Uztelecom charges operators for domestic and international IP transit.

**CHEMICALS**
- Separate regulatory and control functions from production and business.
- Coordinate strategy of UKS and UNG.
- Gradually remove subsidies, price ceilings, and export controls.

**HORTICULTURE**
- Adopt global public and private standards and certification for exports.
- Eliminate prepayment for horticultural exports.
- Accelerate investment into modern irrigation systems and into crop varieties R&D.
## SUMMARY OF PROPOSED WORLD BANK GROUP RESPONSE

### IMPLEMENTATION

#### AIR CONNECTIVITY
- Unbundling of airport operations (DPO2)
- Liberalization of the ICT gateway (DPO2)
- Unbundling of ICT agencies

#### ICT
- Telecom Sector Road map (WB TA)
- Capacity building for new regulator (Digital CASA)
- SOE reform and privatization technical support (IBL)
- Implementing regulations for resource allocation and pricing (energy TA)
- Certification and standards (HDP)
- Multi-lateral dialogue between Uzbek government and global standard organizations (TA)

#### CHEMICALS
- Policy engagement on SOE and energy price reform (DPO2)
- SOE reform and privatization technical support (IBL)

#### HORTICULTURE
- Removal of all requirements for exports (DPO2)
- Supply chain development
- Agrifinance (for export oriented agribusiness)

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**Phase 1 – Policy Support**
- Unbundling of airport operations (DPO2)
- Liberalization of the ICT gateway (DPO2)
- Unbundling of ICT agencies
- Policy engagement on SOE and energy price reform (DPO2)
- Removal of all requirements for exports (DPO2)

**Phase 2 – Implementation Support**
- Development of technical regulations to implement unbundling (RAS)
- Corporatization of airports (RAS)
- Competition policy framework (IBL)
- Telecom Sector Road map (WB TA)
- Capacity building for new regulator (Digital CASA)
- SOE reform and privatization technical support (IBL)
- Implementing regulations for resource allocation and pricing (energy TA)
- Certification and standards (HDP)
- Multi-lateral dialogue between Uzbek government and global standard organizations (TA)

**Phase 3 – Attracting Investment**
- Pre-privatization advisory
- PPPs (e.g. airports)
- Post privatization financing
- Structuring and tendering of prospective privatizations
- Post privatization financing
- Pre-privatization advisory
- Post privatization financing (lead investor already identified)

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Notes: DPO2 = 2nd Development Policy Operation, all measures indicated in this matrix are very preliminary and indicative; RAS = Reimbursable Advisory Services on Air connectivity, agreed with GoU and the World Bank in August 2018; IBL = Institution Building Loan to provide technical support for the economic transformation (in preparation; active in 2019); HDP: Horticulture Development Project (already active).
AN UPDATE ON IMPLEMENTATION

February 2019, only 5 months later
THE CPSD IDENTIFIED COMMON POLICY CONSTRAINTS FOR THE FOUR SECTORS

Resolving these constraints will unleash private sector activity

Separation of government policy from operational issues improves delivery of services and quality of goods

Divesting downstream services will create more space for the private sector, and allow Gov't to focus on policy

Creating a level playing field between public and private sector enterprises opens up opportunities for the private sector

Introducing checks and balances will improve transparency, decision-making processes, and efficiency of operations

Increases in tariffs will encourage the public and industry to use energy sustainably, and save for the future

UNBUNDLE SOES
IMPROVE CORPORATE GOVERNANCE
INCREASE COMPETITION AND REDUCE SUBSIDIES
INCREASE ENERGY EFFICIENCY
IMPROVE TAXATION
THE GOVERNMENT HAS TAKEN MANY POLICY REFORMS ON COMMON CONSTRAINTS

Many as a result of discussions around the CPSD and the speed of reforms is accelerating

- Currency liberalized
- Labor reforms started
- Visa-free regime for 7 countries
- New Tax concept announced
- WB approves $1.2 bln in loans
- IFC issues 1st Soum bond
- PPP Agency created
- Horticulture – a number of controls abolished
- Energy Tariffs increased
- Unbundling of Air industry and reforms of energy and chemical sector announced
- WB/IFC support dialogue
- Free travel introduced for 45 countries
- Ministers are no longer to be CEOs of SOEs
- Tax reform implemented
- Public Expenditure Review launched
- State Asset Mgmt Reforms
- Non-Ag land can be owned & transferred
- WB/IFC support dialogue

CPSD Process

SIMPLE REFORMS CONDUCTED
✓ Export controls abolished
✓ Clearance procedures simplified
✓ Export price limits abolished
✓ Prepayment requirements removed
✓ Modes off transport liberalized
✓ Export licenses removed

Horticulture exports increased by roughly 50% in 2018
Number of recipient countries increased, now includes Japan, Korea and China

BUT MORE COMPLEX REFORMS ARE YET TO BE IMPLEMENTED
- Introduction of sanitary and phytosanitary standards
- Introduction of food safety systems
- Introduction of veterinary systems
SECTOR LEVEL IMPLEMENTATION / AIR CONNECTIVITY

REFORMS HAVE STARTED

But needs more to encourage investments in aviation and in tourism

SIMPLE REFORMS CONDUCTED

- The unbundling of airline, airports, and air navigation has been announced
- A visa free regime has been introduced for 45 countries
- A new Ministry of Transport is to be established

FlyDubai and Lufthansa have announced it interest to operate in Uzbekistan

The number of visitors increased

THE REFORM PROCESS NEEDS TO CONTINUE ... AS IN THE CURRENT SYSTEMATIC APPROACH

- Separate air regulatory authority to be created
- Airports and airline still need to be corporatized
- Uzbekistan still needs to announces Open Skies regime
- New licensing procedures for additional slots and airlines to be introduced
SLOW REFORMS AND NEEDS TO BE ACCELERATED

The reform process needs to continue ... and in a structured manner

### SIMPLE REFORMS CONDUCTED

- The Telecom gateway is to be opened to the private sector by January 2020

### Sweden's Telia sold its stake in Uzbekistan's Ucell for $215mn

- making Ucell the 3rd state-owned mobile provider along with Uztelecom and UMS.

### MORE COMPLEX REFORMS YET TO BE IMPLEMENTED

- Separate ICT regulatory authority from ICT providers
- Create separate bodies
- Regulator and operators to be corporatized

But, 2nd SOE has gateway license and competition in the mobile phone sector now exists between three state-owned companies.

Why? As the regulatory framework had not changed, no international investor was willing to purchase.
REFORMS ARE UNDERWAY
But key decisions remain untaken

SIMPLE REFORMS CONDUCTED
✓ Future foreign investments
✓ Consultants to provide plans for energy efficiency and overall improvements
✓ Switch to IFRS standards in 2020
✓ Energy tariffs increased 40% for enterprises

IFC is reviewing one chemical enterprise for privatization.

KEY DECISIONS TO BE TAKEN
The CabMin will submit proposals on reform the sector by April 2019

Depending on the enterprise, the Government then needs to decide whether:

a) to restructure first,
b) sell immediately, or
c) potentially close/merge with other companies.
INITIAL BENEFITS HAVE MATERIALIZED FOR THE PUBLIC

SIMPLE REFORMS CONDUCTED

✓ The public can now freely search for work, and move to Tashkent (revision of ‘propiska’ rules)
✓ The exit visa has been cancelled
✓ Retirees now receive a fair and the same salary
✓ With the increase of horticulture exports, and the creation of rural clusters, jobs will be created in rural areas.

And ..... if key policy reforms are continued in aviation and other sectors.
Jobs will be created in tourism and other sectors.
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