European Bank
for Reconstruction and Development

EvD
Independent
Evaluation

COUNTRY EVALUATION

Moving the needle? The EBRD in Uzbekistan (2017-22)

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This report was prepared by EvD independently and is circulated under the authority of the Chief Evaluator, Véronique Salze-Lozac'h. It was prepared under the supervision of Samer Hachem, Director of the Country, Sector and Project Evaluation Division of EvD, by Theo Sands, Principal II Evaluation Manager, Regina Husakova, Senior Evaluation Manager, and Alejandra Palma, Principal II Evaluation Manager, with support from Ciella Ying, intern, on data analysis.

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COUNTRY-LEVEL EVALUATION

UZBEKISTAN

2017 — **2022**

THE EBRD'S RE-ENTRY TO UZBEKISTAN:

A SUCCESS STORY

Investment volumes — **5th highest** of EBRD countries of operation

Local stakeholders — **Established** deep relationships

Strategic relevance — **Aligned** with the Government and EBRD priorities

Contribution towards **systemic changes**

- **Renewable energy**
- **Financial institutions**

A wide range of instruments utilized such as financing, capacity building, and policy dialogue

Repeated transactions induced client and organisational change

Market platforms and aggregators can support engagement at scale

THE EBRD IS THE ONLY IFI

WITH CAPACITY TO REACH BOTH SMALL AND LARGE PRIVATE COMPANIES

BUT SOME CHALLENGES IN IMPLEMENTATION

The EBRD's progress
Mostly depends on the Government's reform agenda

Signing projects prematurely
Limited implementation progress on sovereign projects

- Creates skewed expectations for stakeholders
- Affects the Bank's future engagements

Strategic Priority on Regional Integration
Challenges in operationalising support beyond expanding the Trade Facilitation Programme

Uzbekistan *in brief*	
Population (mn, 2022))	35.6
GDP (current $ bn, 2022)	80.4
GDP per capita (current $, 2022)	2,254.9
Average GDP growth (2017-2022, %)	5.2%
The EBRD in Uzbekistan	
Portfolio (EUR mn, 2022)	2,257
Operating assets (EUR mn, 2022)	687
# of active projects (2022)	69
Expected Transition Impact (2022)	67.8
Portfolio Transition Impact (2022)	80.5 (74.3)
Private sector share of portfolio (2022)	55%
Non-performing loan ratio (non-sovereign)	2.5%
Strategic period	2018-2023
Current strategic priorities	• Enhancing competitiveness by strengthening the private sector's role in the economy • Promoting green energy and resource solutions across sectors • Supporting increased regional and international cooperation and integration

More details covering the breakdown of the EBRD's portfolio are available in Annex 2: Portfolio overview.

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Abbreviations

ABI	Annual Bank Investment
ADB	Asian Development Bank
ASB	Advice for Small Businesses
ATQ	Assessment of Transition Quality
CBU	Central Bank of Uzbekistan
CDP	Corporate Development Programme
CoO	Country of Operation
CS	Country Strategy
DFF	Direct Financing Framework
DFI	Development Finance Institution
EIB	European Investment Bank
ESG	Environmental and Social Governance
EvD	Evaluation Department (EBRD)
FDI	Foreign Direct Investment
FI	Financial Institution
FIF	Financial Inclusion Framework
FMO	Dutch Entrepreneurial Development Bank
FRD	Fund for Reconstruction and Development
FX	Foreign Exchange
GDP	Gross Domestic Product
GEFF	Green Economy Financing Facilities
GET	Green Economy Transition
HQ	Headquarters
ICA	Industry, Commerce, and Agribusinesses
ICHF	Integrated Cultural Heritage Framework
IFC	International Finance Corporation
IFI	International Financial Institution
IPAM	Independent Project Accountability Mechanism
MEI	Municipal and Environmental Infrastructure
MW	Mega Watt
NBU	National Bank of Uzbekistan
NCBI	Net Cumulative Bank Investment
NDC	Nationally Determined Contributions
OA	Operating Assets
PFI	Partner Financial Institution
PPP	Public-Private Partnership
RO	Regional Office
RIS	Remote Identification System
RSF	Risk-Sharing Framework
SME	Small-Medium size Enterprise
SOB	State-Owned Bank
SOE	State-Owned Enterprise
SP	Solidarity Package
TC	Technical Cooperation
TFP	Trade Facilitation Programme
TI	Transition Impact
ToC	Theory of Change
TQ	Transition Quality
VISP	Vital Infrastructure Support Programme
WBG	World Bank Group
WiB	Women in Business
YE	Year-End

Executive Summary

Context of the evaluation

Introducing country-level evaluations

EvD is introducing country-level evaluations to provide a new perspective on how the EBRD contributes to systemic change. Systemic change is an important part of how the EBRD contributes to its strategic objectives but is not clearly visible in the Bank's project-level monitoring systems. Countries are the unit of reference and accountability for the Bank's transition mandate hence the criticality of reporting at country level.

This pilot country-level evaluation examines EBRD operations in Uzbekistan, covering the period 2017-22. Uzbekistan was selected based on the timing of the next country strategy (CS) and the size of EBRD operations, which makes examining systemic change more feasible.

The evaluation takes a theory-based approach. The focus is understanding the contribution towards systemic change rather than attributing change to the Bank's activities.

Uzbekistan – a country transforming

The period covered under this evaluation, 2017-22, marks a period of significant change for Uzbekistan. President Shavkat Mirziyoyev, who took office in December 2016, has implemented a far-reaching reform agenda, which has included the liberalisation of the exchange rate and opening key sectors of the economy to private sector participation and international investment. Uzbekistan has also had to navigate the global challenges of the COVID-19 pandemic and the Russian war on Ukraine, which have had adverse economic consequences and have increased uncertainty.

This time span is also significant with respect to the role of the EBRD in Uzbekistan. The EBRD re-started operations in Uzbekistan in 2017 after a hiatus of several years in which it had no permanent presence in-country. This period is also one of substantial institutional change, with the re-establishment of the Uzbekistan Regional Office (RO) and the growth of the in-country team from 5 members in 2017 to nearly 50 today. This provides a unique opportunity to assess the EBRD's contribution to a country, but also presents challenges given the limited maturity of much of the Bank's portfolio.

Key findings

The Bank's re-entry to Uzbekistan has been a success story overall.

Between 2017 and 2022, investment volumes have risen from nothing to become the fifth highest across EBRD countries of operation (CoOs). In scaling up this support, the EBRD has found a clear role to play in different sectors, demonstrating additionality. There is also clear evidence of a contribution towards systemic change in some of these sectors.

The Bank's success has been built on establishing deep relationships with local stakeholders. Clients and counterparts have mostly rated EBRD support highly, with appreciation for the role of the EBRD, the responsiveness of banking teams, and the Bank's local presence in Uzbekistan.

High strategic relevance and good coordination

The Bank's support has addressed both the government's and EBRD's priorities. In particular support for renewable energy generation and for increasing commercialisation of the Financial Institutions (FI) sector was aligned with core government objectives and the Bank's strategic priorities.

With the exception of the Trade Facilitation Programme (TFP), the EBRD did little to address the strategic priority around targeting regional integration. The Integrated Cultural Heritage Framework (ICHF) was closed with no results, whilst the Bank made little headway in transport and IT infrastructure or regional energy connectivity.

There was broad coherence with other International Financial Institutions (IFIs). Where there was sectoral overlap, there was agreement on overarching priorities and in most cases a good demonstration of coordination. In renewable energy, for example, the allocation of different renewable energy competitive auction processes meant that each major IFI had a role to play, whilst similarly in the FI sector the government ensured an efficient division of responsibilities through creating relationships between State-Owned Banks (SOBs) earmarked for privatisation and specific IFIs including the EBRD. However, there was some divergence in the Municipal and Environmental Infrastructure (MEI) sector, including on the best approach to capacity building in state counterparts.

Distinct additionality

The EBRD demonstrated solid additionality in its activities across sectors. Its direct finance provided to the private sector filled a clear market gap. This was strengthened by non-financial additionality in high standards and perceived reputational benefits to clients. In the FI sector, despite the large presence of other IFIs, the EBRD managed to deliver additionality through the diversity and range of products, capacity building and strong client relationships. High investment needs in the municipal infrastructure space also ensured the high financial additionality of EBRD although the lack of implementation on both physical and capacity building sides diminish additionality in practice.

Clear contribution to supporting the green transition.

There are clear systemic changes in line with the Bank's strategic priority of promoting green energy. With the first utility-scale private-sector renewable energy projects demonstrating their technical feasibility and cost-attractiveness, the government of Uzbekistan has been motivated to keep up the momentum for transforming Uzbekistan's electricity system. The sector is also increasingly attractive to international investors, which is reflective of the systemic changes that have occurred.

The Bank's wide range of activities in this area have contributed to this outcome. Beyond the support for private-sector renewable energy generation, the EBRD has financed grid infrastructure, supported policy dialogue on competitive auctions, and provided capacity building in state counterparts. These operations have contributed towards the fast-growing expansion of renewable energy in Uzbekistan's electricity mix.

Stalled progress in promoting resource efficiency through municipal infrastructure investments.

In the MEI sector the Bank has faced implementation constraints. Disbursement rates on MEI projects are very low and projects have also been slow to start capacity-building activities such as implementation of Corporate Development Plans. As a result there is currently no plausible contribution from the Bank's MEI projects to systemic changes.

Beyond the immediate non-delivery of projects, this situation has implications for how the Bank can engage in Uzbekistan going forward. Slow disbursement rates and long tenors of sovereign infrastructure projects have contributed to the EBRD rapidly nearing its sovereign limit in Uzbekistan, potentially constricting the Bank's capacity to sign additional sovereign projects and respond to government demand going forward.

Expanding the role of the private sector – gradual progress in state-dominated sectors

The EBRD has contributed to increased commercialisation and private sector participation in energy and finance. Through lending to private sector banks and supporting privatisation at SOBs, the EBRD has contributed to increasing commercialisation in the financial sector. Similarly, support for private-sector generation in the energy sector has increased private sector participation and raised competition. Commercialisation of the sector was supported by the creation of a standalone transmission operator through an unbundling process supported by the EBRD.

Effective support to the growth of SMEs

There are clear signs of systemic change in supporting the growth and competitiveness of SMEs from intermediated finance. Through its financing and extensive technical assistance the EBRD has made a clear contribution to the increased rates of SME financing from banks in Uzbekistan. There is also concrete evidence of EBRD's contribution to organisational changes towards SME lending in PFIs through both SME credit lines and TC.

There is less evidence of systemic change from EBRD's direct support. At this point the Bank's direct financing towards private sector businesses is unlikely to be significant enough to have a direct effect on strengthening competitiveness at the macro-level. However, this is also partially a reflection of the project maturity. Advisory services for SMEs provide real value at client level but wider market effects are difficult to establish.

Key insights

The Bank's re-entry into Uzbekistan has been a success story, with significant institutional growth and clear value-addition, with the "on the ground" presence a major driver of success. However, EBRD's position in Uzbekistan is still mostly dependent on government commitment to the reform agenda.

The EBRD has grown investment in Uzbekistan to become the fifth highest across CoOs. This represents significant and impressive institutional growth.

EBRD's operations in Uzbekistan rely largely and directly on continuing government support. Beyond the sovereign lending, a significant proportion of the Bank's private-sector investments in Uzbekistan are state-dependent either because they are transactions with SOBs or because they are investments to support private sector renewable energy with a public sector off-taker. Despite the impressive growth the EBRD has experienced in Uzbekistan, this dependency makes the Bank's situation still fragile and conditional on the government of Uzbekistan's commitment to ongoing strategic reforms. This presents a degree of political economy risk, particularly given that in some areas there are strong vested interests resistant to further change and reform. The pace of reform has also started to slow in particular due to the more complex and challenging nature of current reform priorities.

The contribution towards systemic change has been clearest in areas where the Bank has used a wide range of tools (financing, TC, and policy dialogue), repeat transactions, or market platforms/aggregators to deliver.

EBRD's clearest contribution to systemic change has been within the energy and financial sectors. Across both these sectors a common theme is that the Bank has utilised a wide range of different instruments to deliver. In energy beyond financing for private sector renewable energy generation, the EBRD has also financed public grid infrastructure, delivered capacity building to state counterparts, and contributed through policy dialogue to the renewable energy competitive auction process. This suggests that aiming for systemic change outcomes requires taking a multi-dimensional approach.

Repeat transactions are also effective in inducing client and organisational change. In the FI sector for example, the Bank typically had a range of different projects with the same client covering different thematic areas (e.g. SME credit lines, trade financing, and green economy financing facilities (GEFF). Viewed in isolation these projects delivered their individual project-level outcomes but it is more challenging to understand their contribution towards either client-level organisational change or systemic change. Taken together it is easier to see how a range of different projects with the EBRD have helped to gradually change client behaviour and raise standards and through doing so contribute to wider systemic change.

Market platforms and aggregators can provide a more realistic avenue for contributing to systemic change. The direct financing provided to private sector companies as well as the Advice for Small Businesses (ASB) Programme demonstrates the difficulties of trying to catalyse systemic change by providing support to individual companies, particularly in fragmented economies where actors are small; the ASB Programme, for example, is unlikely to achieve systemic change through direct support to SMEs, where it currently has about 100 projects per year, in a country with over 400,000 registered SMEs. In comparison, using digital market platforms (such as the YouTube channel partnership pioneered by the ASB Team) or value chain aggregators as entry points has the potential to reach scale quickly and by doing so to achieve systemic change.

The EBRD is the only IFI that has demonstrated capacity to reach both small and large private sector companies through a range of instruments including financing and advisory services through the Advice to Small Business (ASB) Programme.

In delivering support to the private sector, the EBRD has found a clear role to play in providing value in Uzbekistan. Supported by its on-the-ground presence, and instruments such as the Risk-Sharing Facility (RSF) which help enable smaller transactions, the EBRD has been active in providing support to private sector companies which have limited recourse to either financing from other IFIs or from international commercial banks. Whilst the contribution towards systemic change is less tangible in this area, there are examples of successful project-level outcomes that have been achieved, and more broadly it is an area where the EBRD's additionality is highest.

Signing projects with unrealistic timelines risks creating skewed expectations for both internal and external stakeholders and slow delivery reduces flexibility for the Bank moving forward due to concentration risk.

There is currently limited implementation progress on the Bank's MEI projects. With disbursement rates at just 3 per cent (excluding projects signed in 2022), these projects have not yet entered physical implementation, nor have they started the Corporate Development Plans to strengthen counterpart capacity, despite, in some cases, original target completion dates of end-2022. There is some data to indicate that disbursement rates on comparable projects at other IFIs is higher, and stakeholder feedback also suggests that the slow implementation and disbursement is unique to EBRD in the sector. One reason for this divergence is that for the EBRD's MEI projects, the project implementation support was structured to be funded from loan proceeds. In comparison, other MDBs used TC funding in advance of signing for project implementation support. However, the delayed disbursements also speak to the complex political economy environment in Uzbekistan, and the challenges the Bank has had in navigating and mitigating that risk.

This limited progress has implications for stakeholder expectations. Internally, the low disbursement rates and the limited concrete progress on implementation (including on TC components) highlight MEI as an area where there are potential challenges. Externally falling behind implementation schedules raises costs for clients (including via commitment fees), frustrates stakeholders, and negatively effects EBRD's capacity as a credible organisation to deliver.

Beyond the immediate non-delivery of projects, this situation also influences how the Bank can engage in Uzbekistan going forward. The slow disbursement rates and long tenors of sovereign MEI projects have contributed to the EBRD rapidly nearing its sovereign limit in Uzbekistan, potentially constricting the Bank's capacity to sign additional sovereign projects and respond to government demand going forward.

The Bank was not able to find ways to provide meaningful value in the time-period under evaluation in relation to integrated infrastructure.

With the exception of the TFP, the EBRD did little to address the strategic priority around targeting regional integration. The ICHF was closed down with no material results its despite clear potential for strengthening tourism in Uzbekistan whilst the Bank made little headway in improving transport and IT infrastructure or improving regional energy connectivity at the international level.

Country-level evaluations can provide a valuable perspective for assessing the Bank's contribution to systemic change, alongside other mechanisms for capturing project-level outcomes.

The rationale for conducting this country-level evaluation was based on the premise that it would highlight how the Bank contributes to systemic change. Although the importance of systemic change is widely recognised, it is difficult to capture and track as part of project-level monitoring systems. This exercise has demonstrated the potential of country-level evaluations to capture systemic changes that the Bank has contributed towards, such as in the energy or financial sectors, and through doing so provide a more comprehensive picture of performance and generate useful lessons on how to deliver systemic change in the future. Furthermore, EvD's view is that country-level evaluations could provide an important and independent perspective as part of the country-strategy development process.

Recommendations

Strategic recommendations

Recommendation 1: Focus efforts on strategic priorities where potential impact and additionality are clear. If the Bank continues prioritising regional connectivity, given the lack of delivery so far in this area, propose a targeted and evidence-based approach in the new strategy laying out where the Bank sees feasible opportunities to deliver and additionality in doing so.

Beyond the Bank's TFP programme, which is effectively ubiquitous across the regions in which the Bank operates, there was limited headway in addressing the strategic priority of strengthening Uzbekistan's regional integration. The Bank's pilot ICHF framework, which was aimed at the tourism sector, was closed with limited results; there has been no activity in IT infrastructure, and progress on transport infrastructure has been challenging. Given the resource constraints the Bank faces, and in particular the limited manoeuvrability under the sovereign investment limits, this raises the question of selectivity and whether the Bank should continue to prioritise this area.

If the new country strategy does continue to prioritise regional connectivity, EvD recommends an extended analytical process to take stock and identify areas where the EBRD can feasibly add value and deliver transition impact. A specific roadmap for implementation would also be useful and lend confidence that the Bank can deliver in this critical but challenging area.

Recommendation 2: Identify and promote systemic change mechanisms as part of both direct financing to the private sector and the ASB programme. These may include focusing on aggregators, targeting strategic sub-sectors with the greatest potential for fostering systemic change and promoting market-building activities

Looking at the Bank's support to the private sector highlights the challenges of trying to catalyse systemic change when providing support across a wide range of sub-sectors or in highly fragmented markets. In the case of the ASB Programme, for example, which is very active in Uzbekistan, the number of SMEs that received ASB support is less than 0.1 per cent, which makes contribution to wider systemic change less plausible. Similarly, there were few signs of systemic change stemming from direct private sector financing.

EvD recognises that elements of the Bank's approach within the support to the private sector and the ASB programme already embed systemic change mechanisms. Examples include the 'Grow Your Consultancy' sessions organised by ASB, as well as the use of digital platforms such as YouTube to reach large numbers of market participants. The projects with Indorama also demonstrate the potential for systemic change effects, as an aggregator within the market system.

However, the ASB KPIs and the impact dashboard it uses to track records are much more attuned to the inputs and individual outcomes from local advisory projects, rather than market building activities (e.g. supporting the development of business consultancy services/other mechanisms of SME ecosystem support). Similarly, for ICA projects under the SBI the KPIs do not have systemic change components, and within the current country strategy there is limited attention as to which sub-sectors have the greatest potential for systemic change, or how to focus on systemic aggregators in sub-sectors where they are present.

Operational recommendations

Recommendation 3: Explore mechanisms to address political economy risks in the preparation of MEI projects and factor in better such risks when specifying project timelines.

Sovereign infrastructure projects in Uzbekistan have been challenging: as of YE 2022, two were cancelled, two were on hold, and the remainder had not started physical implementation. The primary reason for these delays is the political economy risk and fluctuating political economy climate in Uzbekistan, which puts the onus on the Bank to prepare and mitigate this risk accordingly, as well as being realistic in communicating likely project delivery times during the project approval stage. One potential mechanism to mitigate political economy risk would be to explore models used by other MDBs in Uzbekistan with more project preparatory work funded through TCs prior to signing, although EvD recognises that this approach also has costs.

EvD would also suggest that a more realistic approach to project timelines in Board documents for project approval would give a more holistic view of the costs and opportunities associated with each project, improving the Bank's ability to focus support on sovereign projects where there is the highest potential for transition impact and feasible implementation.

Recommendation 4: Explore and address barriers that are restricting PFIs from bringing potential transactions under the Risk-Sharing Framework to the EBRD

The EBRD has made headway with the Risk-Sharing Framework in Uzbekistan. However, PFIs have not brought projects to the EBRD. Part of the rationale for the RSF is to give the EBRD opportunities to provide funding to SMEs which otherwise would not appear on the organisation's radar, improving the capacity of the EBRD to reach smaller companies. EvD would recommend a clear identification of the barriers that PFIs face in brining transactions under the RSF, and a strategic approach to address those barriers over time.

1. Introducing Country-Level Evaluations and Providing the Context of Uzbekistan

1.1. Exploring the rationale for country-level evaluations

1. **As part of its 2023 Work Programme, EvD has introduced country-level evaluations to its product mix.** Whilst country-level evaluations are a standard output for evaluation departments at other MDBs, they represent a new product for EvD.

2. **The rationale for introducing country-level evaluations is that they provide a unique opportunity to examine how the EBRD has contributed towards systemic change.** The Bank contributes to impact through two dimensions: the individual outcomes from projects and the systemic changes that occur in markets over time as a result of Bank interventions. Project-level outcomes are tracked and monitored by the Bank's measurement systems whilst systemic change is not typically, due in part to the challenge of measurement (Box 1).

Box 1: What is systemic change?
Systemic change refers to fundamental changes to structures, behaviours, or relationships by market participants. Driving systemic change often involves changing the underlying roles, norms, structures, and incentives within a market system rather than focusing on the outputs from an individual project. There can be a substantial time lag between project delivery and systemic changes, which creates challenges both with respect for monitoring and evaluating whether interventions have contributed towards systemic changes. Systemic changes are difficult to measure and attribute, given the complexity of market systems, the wide range of actors, the context-specific factors, and the long timeframes that can be needed for them to materialise. As a result, monitoring frameworks frequently do not collect data on how projects have contributed towards systemic change. Development organisations focus on systemic change for two principal reasons: scale and sustainability. Through catalysing systemic change, development finance institutions (DFIs) can effectively leverage and scale up the impact from their own financing. Systemic change can also improve the sustainability of results by changing norms, behaviours, and relationships to embed results rather than relying upon temporary development or concessional financing. EvD's upcoming evaluation synthesis of the EBRD's approach to transition impact (TI), which will be discussed at the Audit and Risk Committee in Q4 2023, will provide a comprehensive overview of how systemic change is treated under the Bank's current TI monitoring systems, and the interrelation between systemic change and project-level outcomes.

3. **The Besley Report on TI noted that the analysis of systemic change is more transparent at the country- or country-sector level than at the project level**[1]. This conclusion, which underlies the use of a country-level evaluation to look at systemic change, is based on two factors:

[1] Timothy Besley, Transition and transition impact: a review of the concept and implications for the EBRD, 2010

- Employing a country-level lens enables the analysis of how different interventions in interrelated sectors and areas within a single market system may have wider synergistic and systemic effects.
- Examining change at the country-level enables deeper contextualisation and understanding of how the EBRD has contributed to systemic change given local context.

4. **The primary objective of this country-level exercise is to identify how the EBRD has contributed to systemic changes in line with the Bank's strategic priorities (Box 2).**

Box 2: Clarifying the purpose of the country-level evaluation – and what it is not

In developing a methodology for this exercise EvD conducted a wide review of country-level evaluations by comparator organisations. This identified "best practices" in country-level evaluation and highlighted the wide range of approaches.

For the purpose of clarity, EvD would highlight what **this exercise is not**:

- An assessment of how Uzbekistan has developed, or the performance of the Government of Uzbekistan. This is an evaluation of EBRD's performance and contribution, not a wider appraisal of macro-development.
- An assessment of the Regional Office's (RO) performance. This does not reflect the model of the Bank, with colleagues from headquarters (HQ) and the RO delivering projects in tandem.
- An aggregation of individual project-level ratings. Keeping analysis at project-level misses the opportunity that country-level evaluations provide to assess systemic change.
- An evaluation of the quantifiable contribution that the EBRD has made towards changes in Uzbekistan's Assessment of Transition Qualities (ATQ) scores. Whilst this evaluation explores how the EBRD has contributed towards systemic changes and the relationship this has with transition qualities, it does not aim to understand the direct impact the EBRD has had on ATQ scores. This decision reflects the limited timeline and resources to conduct this evaluation as well as the technical challenges of attributing changes in ATQ scores to EBRD's activities.
- A direct assessment of the Uzbekistan Country Strategy. A CS provides a useful starting point as a framework for understanding the Bank's strategic priorities within a country. However, EvD's focus is on understanding the Bank's contribution to systemic changes rather than the adequacy of the country strategy.

1.2. Outlining the scope and methodology

5. **The scope of this evaluation covers all EBRD activities – financing, policy dialogue, and Technical Cooperation (TC) assignments – in Uzbekistan from 2017-22.** This wide scope reflects the fact that systemic change is often the product of a range of connected initiatives rather than the outcome of a single project or TC assignment.

6. **The evaluation aimed to address the following set of evaluation questions:**

- Was the Bank's strategy relevant to key stakeholders, including the Government of Uzbekistan, other International Financial Institutions (IFIs), and civil society?
- Was the Bank's implementation relevant to its own country strategy?

- Did the Bank's approach and implementation demonstrate coherence with other stakeholders and in particular other major IFIs?
- Did the Bank identify ways to be additional and add value?
- Did the Bank implement projects efficiently?
- Is there evidence of the Bank's contribution towards systemic changes?

7. **The methodology employed by EvD uses a theory-based approach with a three-stage process.** A theory-based approach aims to develop a causal pathway explaining how the Bank's activities will contribute towards systemic change and use that as a framework for identifying key assumptions and collecting evidence on the extent of the Bank's contribution.

8. **The first stage was to identify initial areas of sectoral focus for the Bank.** The selection of sectoral focus areas reflects the areas of concentration of the Bank's portfolio in Uzbekistan – based on the assumption that a prerequisite for influencing systemic change is critical mass in implementation within a particular sector.

9. **The second stage was to develop a structured Theory of Change (ToC) for each area.** EvD developed *ex-poste* ToC-based document review, interviews with EBRD colleagues and a workshop held with the Tashkent RO staff. These were then used as a framework to map and collate the data that EvD was gathering, providing a structure to illustrate how much evidence there is for the EBRD's contribution towards systemic changes.

10. **The third stage was to synthesize systemic changes at the level of the EBRD's wider strategic objectives in Uzbekistan (see Chapter 3).** This used a "double-entry" matrix approach which maps areas of potential change at the sectoral level versus each of the Bank's strategic priority areas (Table 1). The main report provides an overview of how and where the EBRD has contributed towards systemic change for each of the Bank's strategic priorities in Uzbekistan. More detailed analysis at the sectoral level is set out in the annexes.

Table 1: Double-matrix approach with examples

		EBRD Strategic priorities in Uzbekistan		
		Enhancing competitiveness by strengthening the private sector's role in the economy	**Promoting green energy and resource solutions across sectors**	**Supporting increased regional and international cooperation and integration**
Sectoral focus area	**Support to FIs**	*Reform of state-owned banks, support to private sector banks, and SME financing*	*GEFF financing lines*	*Promoting exports via trade facilitation*
	Decarbonising electricity systems	*Support to private sector energy generation*	*Development of renewable energy generation*	*Investment and TC in cross-border connections*
	Supporting the growth of private sector businesses	*Support to corporates, direct SME lending, and SME Advisory (via the ASB)*	*Direct lending and advisory services to private sector businesses on green solutions*	*Promoting exports via business advisory and tourism through the ICHF*
	Upgrading municipal infrastructure	*Introduction of PPP model*	*More efficient municipal infrastructure*	*Investment in transport or ICT infrastructure*

1.2.1. Highlighting some methodological limitations and caveats

11. **Assessing contributions towards systemic change is challenging, with multiple actors, complex processes, and critical context-specific factors.** This challenge is exacerbated by the limited data available from EBRD's internal monitoring on systemic changes. Whilst triangulation of project data, interviews, and secondary data sources can provide the foundation for robust findings, findings are more tentative in some areas based on the quality of data available.

12. **One solution to limited data quality is to invest substantial evaluation resources into primary data collection.** However, mindful that this is a pilot evaluation and that EvD has competing priorities, primary data collection was qualitative via interviews, rather than more resource-intensive data collection via surveys or other methods.

13. **The timespan covered by this evaluation also provides a significant limitation.** Systemic change outcomes can take years or decades to materialise. This exercise will not capture outcomes that take that length of time given that the evaluation period starts from 2017. This limitation is exacerbated by the unique circumstances of the Bank's re-entry into Uzbekistan, which means that much of the current portfolio is still reaching maturity.

14. **Lastly this is a pilot evaluation.** Following this initial pilot evaluation, EvD will engage closely with Board and Management counterparts to hear their feedback and to identify what could be improved in conducting country-level evaluations going forward.

1.3. The wider context – a changing environment in Uzbekistan, and implications for evaluation

15. **Uzbekistan has evolved significantly during the time period covered under this evaluation.** The Uzbekistan National Development Strategy 2017-21, spearheaded by the new Presidential administration of Shavkat Mirziyoyev, called for the liberalisation of the economy, with an overarching ambition to reduce the presence of the state in the economy, encourage the development of small businesses and attract foreign investments. This strategy has had concrete results as exemplified by the increasing drive towards privatisation in Uzbekistan, the liberalisation of the foreign exchange (FX) market and the growth of entrepreneurship.

16. **The period also covers two global events with major consequences: the COVID-19 pandemic and the Russian war on Ukraine.** Like many countries around the globe, Uzbekistan enacted lockdowns to limit the spread of COVID-19 and was affected by restrictions on people and goods moving internationally. The Russian war on Ukraine has also caused severe disruption as Uzbekistan has deep economic ties with Russia both through trading links and through the flow of migrant workers from Uzbekistan to Russia, which is an important source of remittances.

17. **This context – of transformational change punctuated by two events of extreme uncertainty – has implications for evaluation.** During a period of rising economic growth and increased interest from international investors, untangling EBRD's contribution can become more challenging. The uncertainty induced by the COVID-19 pandemic and the Russian war on Ukraine also causes issues in comparing results with baselines particularly because the effects of both crises are unevenly applied across different sectors.

1.3.1. A reform-orientated administration

18. **President Mirziyoyev has committed Uzbekistan to ambitious structural reforms.** These include:

- FX liberalisation
- Unilateral trade tariff reduction
- Gradual privatisation of SOEs
- Energy sector reforms, enabling private energy-sector generation
- Deregulating key markets e.g., cotton inputs

19. **Of particular relevance to the EBRD is energy sector reform, which includes the unbundling of the state-owned energy company, legislation enabling private sector generation of renewable energy and tariff reform.** The energy company has been unbundled into four separate entities overseeing distribution, transmission, thermal generation, and hydro generation respectively and the 2017 Renewable Energy Law and 2019 Public-Private Partnership (PPP) law that enabled renewable energy auctions and Uzbekistan's first utility-scale renewable energy power plants. The government is now targeting 30 per cent electricity generation from renewable energy by 2030, an increase from about 7.5 per cent in 2019 (all hydropower). A staged approach to tariff reform was launched but implementation was delayed because of the pandemic (Box 3).

Box 3: Uzbekistan's energy system – state-dominated and inefficient electricity generation
Uzbekistan's electricity sector relies primarily upon old, inefficient gas power stations, which provide about 85 per cent of the country's electricity.[2] As of 2017, there was no private sector generation in Uzbekistan and no utility-scale non-hydro renewable electricity generation. Emissions intensity and energy intensity per unit of GDP was high, the result of heavy reliance upon inefficient power plants and subsidies that encouraged wasteful energy use. **Uzbekistan has faced recurrent issues with blackouts and irregular electricity supply, including severe power outages in late 2022/early 2023 during a particularly cold winter.** Electricity demand is expected to grow significantly in coming years, doubling between 2020 and 2030 as a result of increasing economic prosperity, Uzbekistan's growing population and further electrification of the economy[3].

20. **Major reforms in water municipal infrastructure have included the gradual consolidation of local utilities into Uzsuvtaminot JSC, and the creation of the Ministry of Housing and Communal Services with responsibility for sector policy, coordination, and implementation.** The government has set targets for major expansion of water and wastewater coverage, with estimated investment costs of US$ 4.1 billion for water supply and US$ 2.7 billion in wastewater systems (Box 4).

[2] International Energy Agency (IEA), Uzbekistan Energy Profile
[3] International Energy Agency (IEA), Uzbekistan Energ Policy Review 2022

Box 4: Uzbekistan faces pressing investment needs particularly in water infrastructure

Uzbekistan faces high water scarcity and vulnerability to the effects of climate change. Uzbekistan is a double landlocked and semi-arid country with high levels of water stress. Increased temperatures and more rapid melting of glaciers elsewhere in the region may lead to severe water shortages along Uzbekistan's most important rivers -- the Amu Darya and Syr Darya -- by the 2040s and 2050s.[4]

The water and wastewater sector is characterised by poor infrastructure resulting in unreliable services and high leakage losses. Large parts of the water and wastewater infrastructure originated in the Soviet period and are in poor condition causing frequent disruptions to water supplies. Large quantities of untreated wastewater are being discharged into rivers, canals, agricultural areas, and groundwater resources, causing environmental pollution and water contamination.[5]

21. **In tandem with economic reform, there has been some limited movement on political rights and civil liberties.** Observers have noted the increased transparency of government in Uzbekistan since 2017, improved space for open public discussion, and some improvement on governance indicators – albeit all steady improvements from a low level[6]. The government has also moved to eradicate systemic forced labour in the cotton industry, a significant change from 2017 when 13 per cent of cotton workers were subject to some form of coercion[7].

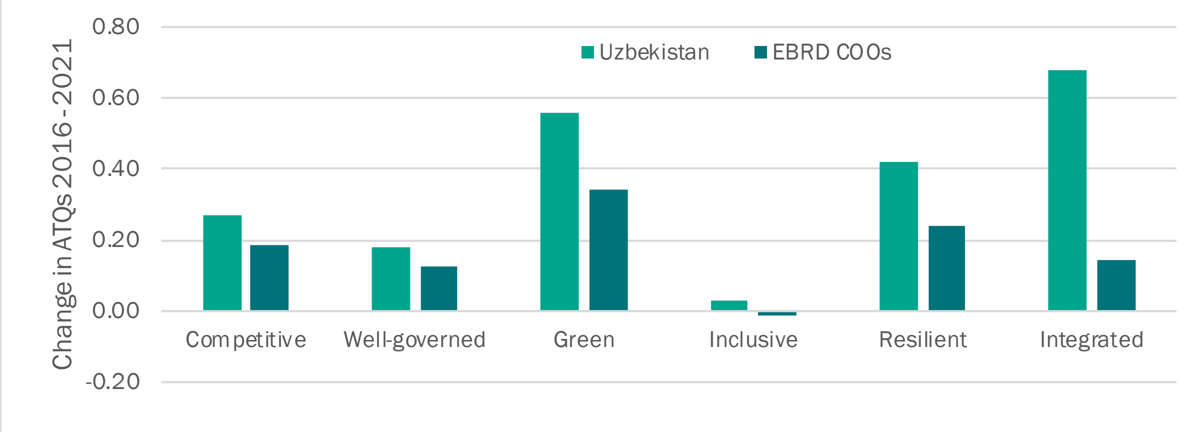
22. **The capacity of civil society organisations (CSOs) in Uzbekistan remains limited.** Civil society organisations face both formal and informal barriers when operating, including as part of the formal registration process, and some of the most visible have close relationships with government such that their independence is in question. This environment restricts the capacity of CSOs to meaningfully hold both the government and the EBRD to account and complicates the process of employing participatory stakeholder-based approaches because of the difficulties that CSOs operate under.

23. **The economic reforms implemented by the Government of Uzbekistan have had practical results.** Uzbekistan rose from 87th in 2016 to 69thin 2019 in the World Bank's Ease of Doing Business Rating, 94th in 2016 to 78th by 2020 on the Atlas of Economic Complexity rankings, and 118th to 88th on the World Bank's Logistics Performance Index over the same period[8][9][10].

24. **These changes are also reflected in the EBRD's ATQs exercise.** Across the transition qualities, Uzbekistan saw small but noticeable increases that exceeded the average change across EBRD CoOs over this period. This saw Uzbekistan rise from having the 34th largest transition gaps amongst EBRD CoOs to 31st (Figure 1).

[4] Climate Risk Country Profile: Uzbekistan (2021): The World Bank Group and the Asian Development Bank.
[5] Sector assessment summary, water and other urban infrastructure and services, the Asian Development Bank, 2021.
[6] https://freedomhouse.org/country/uzbekistan
[7] https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_838396/lang--en/index.htm
[8] World Bank Doing Business database, accessed July 2023
[9] Atlas of Economic Complexity database, accessed July 2023.
[10] World Bank Logistics Performance Index, accessed July 2023

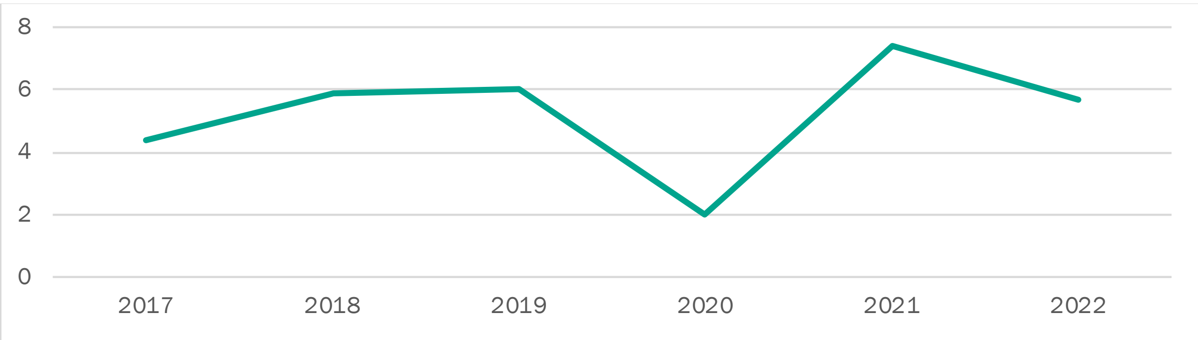
Figure 1: Change in ATQs 2018-22, Uzbekistan vs. EBRD CoOs



25. **Reforms have provided more impetus for IFIs and commercial investors in Uzbekistan.** In addition to the EBRD's re-entry, other IFIs have increased investment into Uzbekistan in support of these structural reforms. The Asian Development Bank's (ADB) financing rose from an average of US$ 594 million per year between 2012-16 to US$ 1.372 billion in 2022, whilst as an even starker example, the IFC approved US$ 17.7million of projects between 2010-18, and US$ 286.5 million between 2019-22. On a macro-scale, FDI inflows over 2017-21 increased to an average of 2.9 per cent of GDP, a substantial increase from the average of 1.6 per cent over 2011-16.

26. **These reforms have translated into steady economic growth.** Looking forward, the Harvard Atlas of Economic Complexity forecasts an average annual growth rate of 4.5 per cent to 2030, which places Uzbekistan 16th of the 133 countries for which they have data (Figure 2).

Figure 2: Uzbekistan GDP annual growth (%)



Source: World Bank database

27. **Against this wider backdrop of growth and structural reform, Uzbekistan has had to navigate the COVID-19 pandemic and the Russian war on Ukraine.** Both have caused substantial disruption. The COVID-19 pandemic led to lockdowns and travel restrictions whilst Uzbekistan's economy is also being adversely affected by the Russian-led war on Ukraine. Russia is Uzbekistan's largest trading and investment partner and slowing demand in Russia has affected Uzbek exports. The economic slowdown in Russia is also expected to affect the flow of remittances from Uzbek workers in Russia to Uzbekistan, which accounted for 11-14 per

cent of GDP between 2017-20. Uzbekistan has also been affected by the rising commodity and energy prices stemming from the war.

1.3.2. An emerging private sector and state-dominated financial sector

28. **Uzbekistan's economy continues to be dominated by SOEs in strategic industries.** As of 2020, SOEs accounted for over 50 per cent of GDP, with a particularly strong presence in strategic sectors such as construction, telecoms, energy, mining, and manufacturing[11]. The continuing presence of SOEs restricts market opportunities for private sector businesses.

29. **In comparison, SMEs in Uzbekistan are fragmented and face barriers to growth.** Tax incentives for small businesses have contributed to artificial fragmentation of SMEs. Other barriers to growth include the reliability of the electricity supply, access to credit, legal uncertainty and limited access to business services.

30. **As a result, across a range of metrics the private sector in Uzbekistan has performed poorly.** Annual labour productivity growth between 2016-19 was negative, new firms have expanded faster in comparator countries and rates of entrepreneurship are lower.

31. **Uzbekistan's financial sector is dominated by SOBs, which as of end-2021 comprised 86 per cent of the sector**[12]. Historically, SOBs employed a policy-directed lending approach with financing for SOEs in government priority sectors. Today, although the government is making progress on shifting policy-directed lending for SOEs from SOBs to the Fund for Reconstruction and Development (FRD), SOBs still retain a legacy portfolio of assets with SOEs, and in some cases an ongoing mandate to continue to provide SOE financing. Lending at concessional rates to SOEs has undermined the balance sheet of SOBs and affected profitability.

32. **The government of Uzbekistan has earmarked some SOBs for privatisation.** Of the large SOBs, Asaka Bank, Sanoat Qurilish, and Aloqabank are all in line to be privatised, whilst OTP Bank (Hungary) acquired a majority stake in Ipoteka Bank under an agreement signed in December 2022. In addition, since 2017, two international banks, TBC Bank Georgia and Halyk Bank JSC of Kazakhstan have started subsidiaries in the Uzbekistan market.

33. **With the focus on directed lending towards SOEs, the SME and retail segments have historically accounted for smaller shares of the Uzbekistan banking market.** At year-end (YE) 2017, SMEs accounted only 15 per cent of banking assets, whilst as late as 2021 retail deposits as a proportion of GDP stood at 10 per cent, the second-lowest share in Europe and Central Asia[13,14].

1.3.3. Implications for evaluation

34. **This rapidly changing and growing economy makes it difficult to assess the contribution of EBRD's activities in Uzbekistan.** A growing economy coupled with a reform-orientated administration is positive but it can also make it more challenging from the perspective of evaluation to determine the value of EBRD's contribution, particularly since its re-entry into Uzbekistan coincides with the start of the reform period. This effectively means that any comparison of Uzbekistan before EBRD's entry and Uzbekistan after EBRD's entry must also account for other reforms implemented by the government of Uzbekistan during this time span.

[11] Explain or sell: how the state reduces its participation in the economy – Spot
[12] CBU data
[13] Ipak Yuli BM
[14] https://blogs.worldbank.org/psd/livestock-lifelong-savings-improving-financial-inclusion-uzbekistan

35. **This assessment of contribution is further complicated by increased investment from other IFIs.** Other IFIs have stepped up their operations in Uzbekistan. Combined with the narrow pool of investment opportunities, particularly in the private sector, this means there is substantial overlap between portfolios, which makes it more challenging to understand the EBRD's contribution with respect to other IFIs.

36. **Finally, the period under evaluation has been defined by two globally disruptive events: the COVID-19 pandemic and the Russian war on Ukraine.** These exogenous shocks affect the capacity to use baseline and end-line data meaningfully to evaluate performance. EBRD's response to crises has also changed institutional priorities. From an evaluation perspective, this requires taking a flexible approach to how the Bank's approach has evolved in response to external circumstances rather than a static interpretation of the Bank's original strategy.

2. How did the EBRD deliver?

In this section, EvD examines how the EBRD delivered in Uzbekistan, looking at the strategic alignment and the additionality and the efficiency of implementation.

There is a clear demonstration of coherence with the government of Uzbekistan and with other IFIs. The Bank's strategic objectives and EBRD's activities demonstrated alignment with the priorities of the reform-orientated administration of President Mirziyoyev, as set out in the Uzbekistan Development Strategy 2017-21. There was also coherence with other IFIs. Where there was sectoral overlap, there was agreement on overarching priorities, and in most cases a good demonstration of coordination with each institution bringing unique value to the market.

The Bank's portfolio is also relevant in addressing the strategic priorities defined by the EBRD. However, some strategic areas have received more emphasis than others, and in particular there has been limited progress in addressing objectives related to regional integration and transport. There is evidence of increasing integration of gender and inclusion, such as the Women-in-Business (WiB) financing facilities in the FI sector and engagement with energy clients on inclusion.

EBRD operations generally demonstrated good additionality. EBRD's financing was broadly unavailable from the market and in some cases from other IFIs either. Financial additionality was further supported by extensive policy dialogue and TC support.

The efficiency of implementation has varied, with some low points and risks. The efficiency of implementation in the sovereign portfolio has been particularly low even when compared to the Bank's sovereign portfolios in other CoOs. Financial sector projects demonstrated excellent efficiency whilst support for private sector businesses was more mixed. The slow utilisation of sovereign financing may limit future new pipeline development in the sovereign portfolio.

2.1. Strategic alignment and implementation relevance – good strategic focus of the EBRD in Uzbekistan

2.1.1. EBRD's priorities are well aligned with government of Uzbekistan objectives.

38. **The government of Uzbekistan's 2017-21 Development Strategy set out five pillars where the government was prioritising reforms.** Key priorities under that strategy include improving the competitiveness of the economy, reducing the state's presence in the economy, increasing the share of renewable energy, and encouraging the development of small businesses.

39. **The EBRD's Country Strategy 2018-23 set out the following set of strategic priorities[15]:**

- Enhancing competitiveness by strengthening the private sector's role in the economy
- Promoting green energy and resource solutions across sectors
- Supporting increased regional and international cooperation and integration

[15] Between 2017-18, prior to the approval of the Uzbekistan Country Strategy 2018-23, the Bank's operations were guided by the Uzbekistan: Approach to Activities (BDS17-02). However, the short-term operational priorities largely mapped onto the subsequent strategy: Private Sector Development, financing and preparation of green investments, and regional connectivity and integration.

40. **The EBRD addresses Uzbekistan's priorities in the areas of competitiveness and green energy** The Bank's first two strategic priorities, "Enhancing competitiveness by strengthening the private sector's role in the economy" and "promoting green energy and resource solutions" echoes language from Uzbekistan's 2017-21 Development Strategy. The third EBRD strategic objective, "supporting increased regional and international co-operation and integration", is less tangible although the 2017-21 development strategy does call for facilitating exports.

2.1.2. The EBRD broadly maintained coherence with IFIs, but engagement with civil society was more mixed

41. **IFIs have largely taken a coherent approach to delivery.** In energy and in the FI sectors, IFIs have coordinated carefully on financing and policy dialogue. This has been supported by the government, which "allocated" areas to IFIs to ensure complementarity.

42. **The financial sector in Uzbekistan has received support from multiple IFIs, including the International Finance Corporation (IFC), the Asian Development Bank (ADB), the Dutch Entrepreneurial Development Bank (FMO), Proparco, and impact investors.** Given sector size, this has inevitably meant substantial overlap between IFIs in their client base; all PFIs that the EBRD has worked with have other (sometimes pre-existing) relationships with other IFIs, including with similar products on offer from the EBRD (e.g., SME credit lines, or trade financing). However, there was no evidence of competing priorities or different strategic areas pursued by different IFIs and there was broad recognition from other IFIs of EBRD's clear role in this sector. In particular, EBRD's role in supporting privatisation processes at Asaka, Ipoteka, and UzPSB have been agreed with the IFC to preclude duplication.

43. **Within the energy sector, the provision of both financing and policy dialogue support has been carefully coordinated with other IFIs, particularly the World Bank Group (WBG) and the ADB.** To maximise effectiveness, the government agreed with IFIs an informal "division of roles". On the policy dialogue side, the World Bank led on the 2017 Renewable Energy Law and the solar auctions, the EBRD led on the 2019 PPP Law, the draft Electricity Law, and the wind auctions, and the ADB led on tariff reform. This helped to ensure a coordinated and coherent approach to sector reform.

44. **The picture is less clear with respect to coherence in MEI.** The EBRD has taken a different approach to other IFIs with state counterparts and has not provided the same level of financing for long-term embedded consultants in state counterparts to build capacity. The view of EBRD colleagues was that the embedded consultancy model can negatively affect long-term sustainability if the consultants hired by IFIs are former staff at government counterparts (as has happened in Uzbekistan). However, counterparts at other IFIs and government stakeholders suggested that there would be more traction on some of EBRD's MEI projects with greater embedded consultancy support.

45. **Coherence in approaches to regional integration and cooperation is harder to assess given limited implementation.** Although the EBRD has not signed any projects yet in road infrastructure, stakeholders at other IFIs expressed some scepticism on the approach the Bank has employed in this area, and in particular on the viability of using a PPP model for roads given challenges in how they are treated under Uzbekistan's legislation. The Bank has deployed significant TC funds in preparatory support for road projects but there are no signed transactions currently. There is greater coherence in how IFIs have supported trade financing with similar products on offer to PFIs in Uzbekistan enabling healthy competition.

Engagement with CSOs is harder to assess. CSOs are, in general, key stakeholders for the EBRD but have limited space to operate and express their views in Uzbekistan. These factors made it difficult for EBRD to engage much with them. It also made it challenging to engage CSOs directly in this evaluation process, particularly given the evaluation requirement of “do no harm”. Nevertheless, some CSOs, including Bankwatch, have raised concerns about the Bank’s activities in Uzbekistan. These include the Bank’s input into the cotton sector, with labour and land rights, and environmental and social concerns with infrastructure projects. In particular, EvD would note that Uzbek Forum has filed a request for compliance review with IPAM related to the Indorama Agro project[16].

2.1.3. Relevance to the needs of Uzbekistan has been translated into operations.

46. **The Uzbekistan portfolio shows good alignment with the strategy.** Mapping the portfolio onto the strategic priorities shows the most projects supporting competitiveness (47 per cent), followed by projects promoting green energy (28 per cent) and supporting integration (9 per cent) (Figure 3). In terms of investment volume, support to green energy comes first, followed by competitiveness and then integration (Figure 4). This is not a surprising finding as many of the projects supporting competitiveness are smaller transactions signed under the Small Business Initiative, whilst the energy projects are larger infrastructure projects. The overwhelming majority of financing supporting integration derives from the TFP.

Figure 3: Mapping signed projects by strategic priority

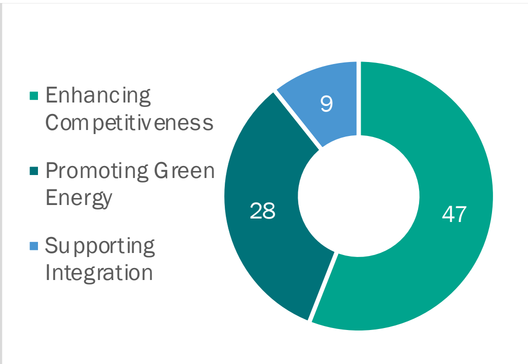
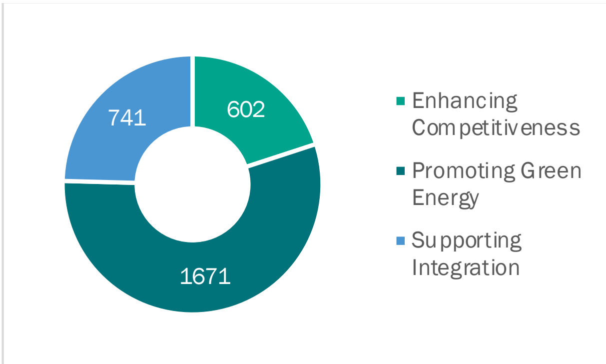


Figure 4: Mapping signed investments by strategic priority (ABI, € million)



47. **Even where the Bank was implementing crisis response measures in response to COVID-19, careful steps were taken to ensure relevance.** This was demonstrated by the Vital Infrastructure Support Programme (VISP) facility, which provided working capital to the state-owned Thermal Power Plants company whilst it was experiencing a liquidity squeeze during the pandemic. Although the financing purposes were not directed towards promoting green energy, covenanted as part of the loan was a commitment to decommission 450 MW of capacity at the Tashkent power plant, helping to free up capacity for renewable energy generation.

48. **There is a debate around the relationship between the EBRD’s financing of two gas power plants and promoting green energy and resource solutions.** Superficially, these projects would appear to be counter to the Bank’s objective. However, Uzbekistan’s Low-Carbon Pathway for the Electricity Sector, developed with the support of the EBRD, demonstrates the transition role of new gas power plants in Uzbekistan, given its inefficient legacy systems still in use. Combined with the decommissioning covenanted as part of the VISP facility and the extensive investment

[16] The press release issued by Uzbek Forum can be found here: Complaint Filed against EBRD: Labor Rights Violations, Land Grabs and Exploitation at Cotton Producer Indorama Agro in Uzbekistan | Uzbek Forum for Human Rights

into renewable energy generation, the role these two projects play in promoting green energy and resource efficiency becomes clearer.

49. **Beyond the TFP, there is a gap in the portfolio with respect to supporting increased regional and international cooperation and integration.** The only non-TFP project with a direct link to that strategic priority was the €315,000 Khiva Malika hotel project, financed under the ICHF. Areas where the Bank had indicated that it could provide support potentially for this strategic priority included:

- Narrowing gaps in transport infrastructure
- Improving ICT infrastructure
- Supporting regional energy cooperation
- Using the cultural heritage framework to boost tourism and improve municipal and transport infrastructure

50. **In some of these areas, there has been initial activity but no implementation.** In transport infrastructure, for example, road projects passed the concept review stage in 2018 and 2019 but have not gone to the Board for approval. Stakeholders explained that ongoing complications regarding the regulatory regime for PPPs in transport infrastructure was a source of delay, as was implementation capacity.

51. **There does not appear to have been any serious focus on improving ICT infrastructure or regional energy cooperation.** The Bank has signed no transactions in this area, and there are no pipeline opportunities under consideration.

52. **Uzbekistan was one of the pilot countries for the ICHF, under which two projects were signed before the framework was closed.** The ICHF was closed as a result of the impact of COVID-19 on the tourism sector. More details on the ICHF are available in Annex 7.

2.1.4. Gradual and modest progress on integration of gender and inclusion

53. **The Uzbekistan 2018-23 Country Strategy called for the Bank to promote gender inclusive growth at the project level.** Given the introduction of the Bank's GenderSMART methodology in 2021, there are no equally comparable data across every year covered under this evaluation, meaning it is challenging to use portfolio data to understand trends.

54. **There are some signs of progress in this area, particularly with repeat clients where the Bank has managed to identify opportunities for a stronger gender focus in later projects.** For example, in the FI sector, after initial transactions were signed to provide PFIs with SME and TFP facilities the Bank arranged follow-on WiB projects with three PFIs, with more in the pipeline. The Bank has also engaged in policy dialogue in this area, covering the definition of women-led SMEs within the law.

55. **Similar repeat transactions have had success in the energy sector.** Part of the Syrdarya project, for example, supported the establishment of a centre of excellence at Shirin College of Energy. The Bank then built upon that engagement with an additional TC assignment introducing new accredited training programmes at Shirin College as part of the Bash and Dzhankeldy Wind Power projects with the same client. There has also been a trend towards increased integration of gender and youth inclusion in the MEI sector: the last two projects signed -- in solid waste management -- included TC funds for skills training for youth to promote employability, and the Corporate Development Plans (CDPs) for these projects included the development of Equal Opportunities Action Plans to increase female representation in male-dominated occupations.

56. **Identifying opportunities to integrate gender within private sector Industry, Commerce and Agribusiness (ICA) investments has been more challenging.** Many of these investments are small transactions for companies with limited experience attracting financing from FIs and with significant corporate governance limitations. Of the Bank's 18 clients in this area, transactions with gender-inclusive components have been signed with 2 of them. Perhaps unsurprisingly, they are also amongst the larger clients in this market segment.

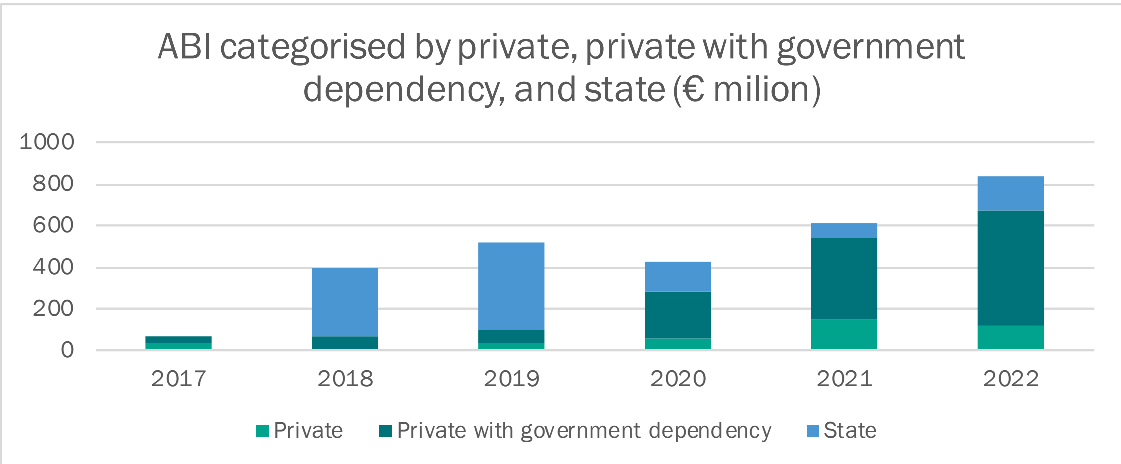
2.1.5. Delivering private sector investment, but relying upon public sector support

57. **The Bank's investments in Uzbekistan mark a clear trend towards increased private sector investment.** Initially, the provision of sovereign loans in government priority areas opened the door for restarting EBRD operations in infrastructure in Uzbekistan from 2018. Implementation of sovereign infrastructure projects provided the Bank with an opportunity to re-engage with the government and restart business and policy dialogue in the country. in 2018 the share of sovereign ABI in EBRD operations was over 80 per cent, but it rapidly decreased to 20 per cent in 2022 as operations in the private sector took off, including in energy generation.

58. **However, in practice the distinction between private and public is less clear, with many nominally private sector projects relying upon government support.** As noted by EBRD colleagues interviewed by EvD, much of the Bank's private sector investment in Uzbekistan is reliant in some way upon continued government support. Investments into private sector energy generation, for example, are all predicated on off-taker agreements with public sector entities and continuing government support for private sector generation (including renewables). Similarly, in the FI sector the EBRD has mainly engaged with SOBs earmarked for privatisation. Should the government of Uzbekistan step back from the privatisation process there could be significant repercussions for the Bank's capacity to support SOBs going forward.

59. **In some respects, this is not unique to Uzbekistan.** The model of private-sector renewable energy generation with a private sector off-taker, for example, has been widely implemented. However, what is perhaps more unique in Uzbekistan is the extent to which political will and public sector commitment has evolved (and continues to evolve). In EvD's view, a large proportion of projects reliant upon government commitment presents heightened risk in the Uzbekistan context.

Figure 5: Breaking down investment into Uzbekistan[17]



[17] Projects within the "private with government dependency" category are defined as energy projects where there is a PPA with an SOE, and FI projects with SOBs.

2.2. Adding value? Providing solid additionality across sectors

2.2.1. Additionality in direct financing to the private sector – filling a clear market gap

60. **There is evidence that neither DFIs nor international commercial banks are able to provide financing to private sector businesses in Uzbekistan at the same rate as the EBRD.** Over 2016-22, the IFC's only investment in this category was with Indorama, as part of projects providing co-financing with the EBRD. Neither the ADB nor FMO are active in this sector.

61. **This conclusion was reinforced through interviews with private sector clients.** None of the local private sector clients interviewed by the EBRD had experience with or exposure to other DFIs, and limited exposure to international commercial banks. These interviews demonstrated the EBRD's unique capacity to reach smaller, private-sector clients, particularly through mechanisms such as the Risk-Sharing Framework (RSF) that help to support transactions that are smaller than the Bank would normally envisage.

"We discussed options with other IFIs, but the EBRD is the most active and most realistic bank in the market."
EBRD client

62. **Client interviews showed that they perceived EBRD's financing as additional.** Clients noted the difficulties of securing financing from local banks, particularly in FX on longer terms, and the limited interest of international banks. In some cases, clients were adamant that the project would not have gone ahead without EBRD's participation.

63. **In addition to financing, clients provided evidence of EBRD's additionality via both capacity-building and EBRD attributes.** The Bank's due diligence process and Environmental and Social Governance (ESG) requirements, both of which were more stringent than local private sector clients, were used to helped to raise standards whilst the EBRD provided support on wider corporate governance standards (e.g., introducing International Financial Reporting System accounting). Clients also noted the reputational benefits of a project with the EBRD.

"The EBRD standards were needed. They are helping our company and are helping to make our decision-making more structured."
EBRD client

2.2.2. Additionality in the financial sector – crowded, but with a clear role to play.

64. **The financial sector in Uzbekistan has attracted interest from a range of DFIs. The** IFC, ADB, FMO, Proparco, and impact investors have all provided financing to the sector and in some cases have also provided capacity building. Given the sector size, this has inevitably meant substantial overlap between DFIs in their client base. In some cases, EBRD clients had established and pre-existing relationships with other DFIs at the point of EBRD's entry into Uzbekistan.

65. **Despite being a crowded sector, there is significant evidence of the EBRD providing additional value compared to the support of other DFIs.** Several clients noted that prior to EBRD's engagement, credit lines from other DFIs were issued via the Ministry of Finance with a sovereign guarantee, and that the EBRD facility marked their first direct engagement. For some clients, EBRD's transaction marked the first local currency transaction received from a DFI. During interviews, other DFIs recognised EBRD's bold

"It was a revelation that IFIs can provide direct financing in local currency."
EBRD client

approach in engaging with PFIs in Uzbekistan, which helped demonstrate what was possible in the sector.

66. **The diversity and range of products available from the EBRD provided another mechanism through which it was able to provide value in a crowded DFI space.** In addition to more standardised SME credit and trade finance facilities, EBRD's product suite of green finance, risk-sharing, and WiB lines have expanded the options available to PFIs.

67. **More broadly, the FI sector in Uzbekistan has limited other funding resources either from commercial banks or from deposits.** Retail deposits stood at 10 per cent of GDP in 2021, the second lowest share in Europe and Central Asia, providing a limited platform for PFIs to deploy capital[18]. Furthermore, there is little funding available on the commercial market to banks in Uzbekistan. Of the four private PFIs supported by EBRD, only one had any type of funding line from a commercial provider, with funding sources dominated by DFIs or government entities.

68. **Clients also recognised the support of the EBRD during the COVID-19 pandemic, with the provision of liquidity support via the Solidarity Package (SP).** The perception of clients was that the EBRD was a responsive partner in offering support when other DFIs were restricting lending.

69. **A strong relationship with clients in-country has underpinned these transactions.** Clients emphasised the ease and flexibility of engagement with the EBRD, with the overriding impression that the EBRD is perceived as a more active and efficient partner than other DFIs even when they are client shareholders or have other significant formal relationships in place.

70. **In addition to financing, the EBRD has played a clear role in providing capacity building and technical assistance.** The Bank has provided support as part of TC attached to frameworks such as the Green Economy Financing Facilities (GEFF), Financial Inclusion Facilities (FIF), TFP, and WiB, as well as more bespoke TC provision. In particular, the EBRD's role in supporting privatisation processes at Asaka, Ipoteka, and UzPSB have been carefully coordinated with IFC to avoid duplication. Clients also highlighted the specialist support provided by the EBRD in areas of climate corporate governance and treasury.

71. **Asaka Bank noted the EBRD is currently the only foreign entity with a custodian account at a local bank.** This transaction, conducted by EBRD's treasury department as a pilot, enables the EBRD to hold government securities via a local bank, and in doing so test local capital market infrastructure and also serve as a demonstration effect to other international investors.

2.2.3. Additionality in the energy sector – a changing dynamic

72. **Unsurprisingly, the first wave of renewable energy projects in Uzbekistan attracted limited interest from large international investors.** This provided a clear space for the EBRD within the market to provide financing. In combination with the extensive policy dialogue carried out in coordination with other IFIs, this has ensured high additionality.

73. **Looking forward there is a growing commercialisation of financing in the renewable energy sector.** More recent financing rounds have elicited interest from a wider range of IFIs as well as commercial investors. The EBRD has facilitated this process by arranging for the syndication of financing both to bilateral IFIs such as Proparco and the FMO and to commercial financial institutions such as Standard Chartered. Currently the EBRD's successful syndication is

[18] https://blogs.worldbank.org/psd/livestock-lifelong-savings-improving-financial-inclusion-uzbekistan

providing another route to additionality, although increasing commercialisation also raises the risk that in the future EBRD's financing could crowd out private sector investment.

74. **Besides renewable energy financing, the EBRD and other IFIs have provided support for the development of Uzbekistan's grid transmission infrastructure.** As is standard practice for transmission infrastructure projects, these are sovereign loans for the construction and modernisation of Uzbekistan's national grid. As sovereign loans, there are limited prospects for commercial financing. The scale of investment needs for Uzbekistan's transmission grid infrastructure also exceeds the limit of any single IFI, necessitating investment from multiple stakeholders, particularly the EBRD, the WBG, and the ADB.

2.2.4. Additionality in municipal infrastructure – high additionality in a sector with many financiers

75. **High investment needs municipal infrastructure ensure high financial additionality in a sector with many financiers.** All operations in the sector are sovereign. In this context IFI finance continues to bridge the infrastructure financing gap and is neither crowding out nor duplicating efforts with others.

76. **The EBRD provides non-financial additionality on MEI projects through Corporate Development Programmes (CDPs).** The provision of CDPs is a standard consultancy service that the EBRD employs. Through partnering with clients on developing CDPs, the EBRD provides another mechanism for delivering additionality.

2.3. The efficiency of implementation – clear divergence between private and public sector

77. **In examining efficiency of implementation, EvD's focus was on the adequacy of disbursement and repayment.** Rather than the expected results and outcomes from projects, this considers the degree to which EBRD commitments were released to clients in line with expected timelines whilst also continuing to follow the "sound banking" mandate of the Bank. This matters to the extent that disbursement rates best reflect when the EBRD's financing becomes available to clients to deploy in the real economy, and rapid disbursement and repayment enables efficient redeployment of capital to continue to support the Bank's TI objectives.

78. **Efficiency of implementation has varied significantly across the portfolio in Uzbekistan.** The efficiency of implementation in the sovereign portfolio has been particularly low, even when compared to the Bank's sovereign portfolios in other CoOs; Uzbekistan has by far the lowest sovereign operating assets as a share of sovereign portfolio at 12 per cent, which is reflective of the limited extent to which EBRD's committed capital in the sovereign sector is being deployed. Financial sector projects demonstrated excellent efficiency whilst support for private sector businesses was more mixed.

79. **The slow utilisation of sovereign financing may limit future new pipeline development in the sovereign portfolio.** As of end-July 2023, the expected sovereign utilisation including pipeline is 127 per cent of the Bank's sovereign limit in Uzbekistan, the highest across all CoOs. Slow disbursements ensures that more capital is tied up on older projects for longer, curtailing the Bank's ability to pursue new deals and remain responsive to government demand.

2.3.1. Non-sovereign lending – broadly a positive picture

80. **There is substantial evidence that transactions in the FI sector were implemented efficiently.** All the FIF, GEFF, and WiB were disbursed in full, with no cancellations or undrawn commitments. Within individual PFIs, the envelopes for credit lines and trade facilities have been rapidly expanded as clients have deployed the funds available. The first set of WiB projects demonstrates how quickly funds have been deployed. Ipak Yuli, for example, received financing under WiB in December 2022 and had fully utilised the first tranche by April 2023.

81. **In providing support to private sector businesses directly, the picture is more mixed.** Some projects have experienced cancellations or material changes in scope. The single largest project, Indorama Agro, a US$ 60 million facility to expand a greenfield cotton farming hub, was half cancelled. However, this reflected an improvement in the sponsor's financial position and their lower risk profile, rather than any changes to the project objectives or scope. The EBRD also provided US$ 10 million to Agromir, split into a US$ 5 million working capital tranche and a US$ 5 million capex tranche, but ultimately the entire loan amount was utilised for working capital – even though the additionality and transition impact arguments at the project approval stage were predicated largely on the capex component. Furthermore, a couple of projects have faced payment difficulties and as a result are in corporate recovery, although this can be primarily attributed to difficulties stemming from COVID-19 and the Russian war.

2.3.2. Sovereign lending – Uzbekistan lagging behind

82. **There have been multiple cancellations on sovereign projects in Uzbekistan.** Two large sovereign projects in MEI have been cancelled and there have been partial cancellations on sovereign projects in energy – although in reality, the picture is more nuanced (Box 5).

Box 5: Cancellations – not all bad?

Cancellations are a helpful indicator of efficient implementation. Frequent cancellations imply a hidden cost for the Bank in the time taken and resources employed to take a project from initial inception through internal reviews and Board approval, and through signing – but with no financial return or contribution to transition impact objectives. Frequent cancellations could also imply a limited understanding of context and client counterpart priorities.

However, cancellations (particularly partial cancellations) can also reflect efficient implementation based on a robust procurement process. For example, there were two partial cancellations on projects to support Uzbekistan's electricity grid infrastructure. The scope of these projects did not change, but by going through the EBRD's procurement process the client was able to achieve significant savings as costs were much lower than they had anticipated. In that case, the client is now utilising these revised cost benchmarks on future capex projects.

83. **The disbursement rates on remaining projects have been very low, particularly in MEI, with projects substantially behind expected completion.** Cumulative disbursements in sovereign energy projects were at 22 per cent of NCBI, while the same measure was 2 per cent in municipal infrastructure at the end of 2022. (Table 3). Management have recognised the necessity of focusing on disbursements in MEI in Uzbekistan, as outlined in the Intranet post "*Show me the disbursements*" from September 2023 discussing implementation on water projects in Uzbekistan.

Table 2: NCBI and Cumulative disbursements in municipal infrastructure at end 2022

OpId	Project name	Signed	Status	NCBI	Cumulative disb.	Disb of NCBI	Original expected completion	Comment
49213	Tashkent DH - Tashteplocentral Project	2018	Cancelled	-	-	-	-	The district heating projects were cancelled at the request of the government, who decided to do the projects through a PPP with Veolia
49214	Tashkent DH - Tashteploenergo Project	2018	Cancelled	-	-	-	-	See above.
49277	Tashkent Water Improvement Project	2018	Repaying	28.1 M	0.8 M	3%	Q3 2022	Change to main counterpart after loan signing, with the Uzsuvtaminot JSC in late 2019 as the national water supply and sanitation utility.
49358	Horezm Water Project	2018	Repaying	56.2 M	1.5 M	3%	Q3 2022	See above
49359	Namangan Water Project	2018	Repaying	56.2 M	3.6 M	6%	Q3 2022	See above
50525	Kashkadarya Wastewater Project	2019	Disbursing	56.2 M	1.2 M	2%	Q4 2023	
50526	Horezm Wastewater Project	2019	Disbursing	84.3 M	1.6 M	2%	Q4 2023	
50979	Surkhandarya Water Project	2020	Disbursing	46.8 M	0.6 M	1%	Q4 2024	
51032	Namangan Regional Water and Wastewater Project	2021	Disbursing	65.6 M	0.7 M	1%	Q3 2025	
50696	Karakalpakstan Solid Waste Project*	2022	Signed	65.6 M	-	-	Dec 2029	Project was on hold at the end of 2022 as the Government requested a change of scope. According to management it is now moving forward again under the original structure, but as of September 2023 was not yet disbursing.
50697	Horezm Solid Waste Project*	2022	Signed	46.8 M	-	-	Dec 2029	See above
				505.8 M	10.0 M	3%**		

*) Loan not yet effective at end 2022
**) Excludes NCBI from 2022 projects

84. **Disbursement rates on MEI projects compare unfavourably with other IFIs that are also active in the same sectors (and with the same counterparts) in Uzbekistan (Error! Not a valid bookmark self-reference.).** However, EvD notes that the operating model differs, with the EBRD structuring transactions to finance project implementation support from loan proceeds and the

ADB using grant funding prior to project signing – although there are some signs that with the most recent projects, signed outside the scope of this evaluation, that the EBRD is partially emulating the approach employed by other MDBs – for example the Water Supply Energy Efficiency Project (50996) and the Samarkand E-Bus Project (52947), described in more detail below.

Table 3: Disbursement rates of ADB-financed projects in municipal infrastructure

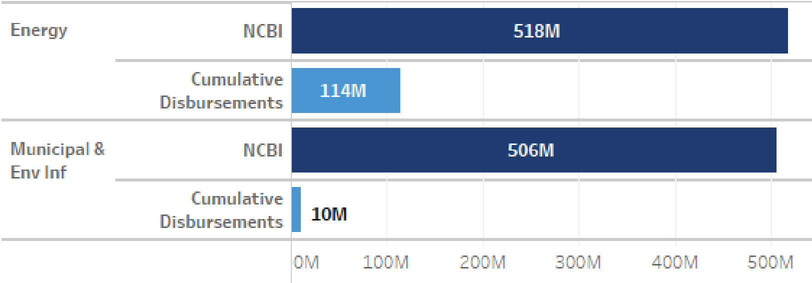
ADB projects with Uzsuvtaminot			
Project name	Signed	ADB financing (mUS$)	Disb of ADB Financing
Djizzak Sanitation System Development Project	2015	81 M	66%
Tashkent Province Water Supply Development Project	2017	120.9M	44%
Western Uzbekistan Water Supply System Development Project	2018	145M	8%
Second Tashkent Province Water Supply Development Project	2019	105.3M	28%
Tashkent Province Sewerage Improvement Project	2021	161M	15%

85. **Delays in delivery have been caused by a confluence of factors including institutional changes, limited implementation capacity, changes in design, and the pandemic.** Institutional changes, including the establishment of Uzsuvtaminot JSC in late 2019 as the national water supply and sanitation utility, resulted in administrative delays and hindered progress. While the client expressed appreciation for EBRD's e-procurement management system and compared it favourably with other IFIs, procurement has also been affected by delays. Due to delays in physical implementation, some critical investments included in the scope of some projects were implemented using budget funds. These changes in scope mean further delays where the Bank has to review the proposed changes and approve the use of proceeds. The two most recent projects in solid waste management signed in 2022 have already been subject to a request for a change of scope and at the time of evaluation are on hold until an agreement is reached. A key underlying factor behind many delays is changes in the political economy environment, such as changes to the key counterpart, which were not anticipated by the EBRD and led to challenges in project implementation.

86. **It is plausible that these delays are occurring because projects are being signed prematurely.** Stakeholders interviewed by EvD noted the challenging contexts in which the Bank is operating in MEI, and the degree to which extensive preparation was necessary (including advance procurement processes) to ensure political commitment and successful projects. This conclusion is reinforced by the overarching summary of the MEI portfolio: two projects cancelled, two on hold due to client requests to change the scope, and seven delayed with little disbursed.

87. **Although outside the scope of this evaluation, EvD notes that for projects signed in 2023, the Bank has taken a different approach with procurement processes starting prior to project approval.** For the Uzbekistan Water Supply Energy Efficiency project (50996), for example, "the two-stage tender for the Project Implementation Support has been launched ahead of signing" – reflecting the Bank's "experience in implementing sovereign portfolio projects, including the reality of the local legislative context to achieve fully effective loan documentation, the time needed to mobilise consultancy support and establish PIUs". Similarly, on the Samarkand E-Bus Project (52947) the EBRD used an advance procurement process and retroactive financing of project expenditures incurred prior to project approval to support project execution. This suggests that the Bank is trying to incorporate lessons and experience from the challenging implementation issues that the Bank has faced. However, besides being outside the scope of this study, it is also too early to tell whether these new approaches will be more effective.

Figure 6: NCBI and Cumulative disbursements in sovereign infrastructure sectors



88. **There is also an argument that the Bank has not been realistic with respect to setting expectations for project implementation timelines in Uzbekistan.** For example, across all of the water and wastewater projects the EBRD appeared to use a standard model of expecting physical completion of projects 4 years after signing, even though those targets have been substantially missed across the portfolio. Given the circumstances of the Bank's re-entry into Uzbekistan, the political uncertainty, and the time it takes to better understand context and stakeholders, these target delivery dates appear overambitious. This unrealistic approach has been compounded by responses to Directors' Advisors' Questions (DAQs) on water projects, which have not highlighted that target delivery dates for previous projects have not been achieved, and in doing so provided an incomplete picture:

- [with reference to the Horezm water project] "the project's physical completion, expected by December 2022" (November 2019)
- [with reference to the Horezm, Namangan, and Tashkent Water projects] "overall, given complexity of infrastructure projects (incl. application of the EBRD's Procurement
- Policies and Rules) the Bank is generally satisfied with the progress achieved to date" (November 2020)
- [with reference to the Namangan water project] "The project is on track despite delays" (May 2021)

89. **The political economy difficulties the Bank has faced in Uzbekistan may be partially a reflection of the challenges involved with entry into a country, based on similar experiences in Egypt.** Although more analysis on this topic would be required to build a robust evidence base, in EvD's view it is plausible that it takes a significant period of time to better understand context and stakeholders, and to appropriately navigate the risks of changes within the political economy environment. This point is something the Bank could bear in mind as it considers expansion into Sub-Saharan Africa.

90. **This slow disbursement is potentially limiting the Bank's capacity to support sovereign projects in Uzbekistan.** At the end of 2022, Uzbekistan was at 61 per cent utilisation of its sovereign limit, the fourth highest of all EBRD CoOs. However, sovereign operating assets in the sovereign portfolio were only at 12 per cent, by far the lowest of all countries, as a direct result of the low disbursement rate. In 2022, while commenting on proposed new sovereign operations, Credit noted that the exposure to the Uzbek sovereign is rapidly becoming a concentration risk (Table 5).

Table 4: Top five countries of operations by sovereign limit utilisation at end 2022

Country	Sovereign PTF m€	Sovereign OA m€	Sovereign OA/PTF	Sovereign Limit m€	Sovereign Utilisation	Expected Sovereign Utilisation incl. Pipeline
UKRAINE	2,263	881	39%	2,500	91%	106%
EGYPT	2,077	518	25%	2,500	83%	87%
BOSNIA AND HERZEGOVINA	925	542	59%	1,472	63%	103%
UZBEKISTAN	**1,023**	**124**	**12%**	**1,680**	**61%**	**104%**
SERBIA	951	463	49%	1,680	57%	108%

Source: RDMR 885 -Sovereign Management Limits, month end 2022/12

91. **This high concentration and slow utilisation may limit future new pipeline development in the sovereign portfolio and present high opportunity costs.** Taking into account the existing sovereign pipeline and the particularly long tenors in this portfolio, Uzbekistan is reaching its sovereign exposure limits. This would curtail the Bank's ability to pursue new deals and remain responsive to government demand across different sectors. At the client level, Banking colleagues suggested this was already happening with slow utilisation limiting both client demand and the Bank's willingness to pursue further projects. This highlights the potential opportunity cost of signing sovereign projects and then not actively disbursing.

Box 6: Delivering on green

One practical implication from the low disbursement rates and cancellations in MEI is that there is a marked disparity between GET financing and GET operating assets. GET financing is an *ex-ante* proportion of committed financing. It therefore does not take into account cancellations or low disbursements. GET operating assets, in comparison, is the volume of GET financing that has been disbursed minus repayments. The EBRD has a good record with respect to its GET ratio in Uzbekistan, but this has not translated into GET operating assets (Figure 7, Figure 8).

Figure 7: GET ratio by year, 2017-22

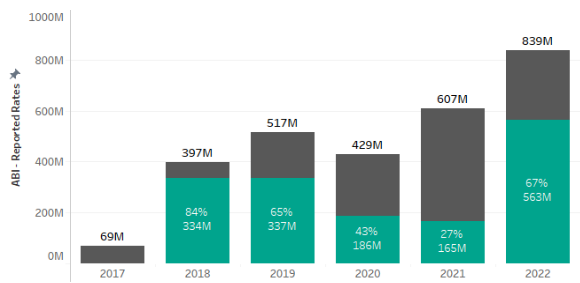
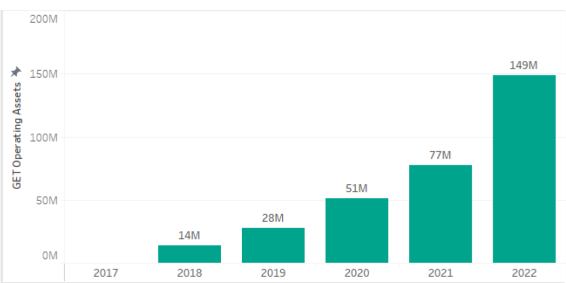


Figure 8: GET operating assets



3. What systemic changes has the EBRD contributed towards?

This chapter provides a summary of the systemic changes to which the EBRD has contributed grouped by the strategic priorities set out in the Uzbekistan Country Strategy:

- Enhancing competitiveness by strengthening the private sector's role in the economy
- Promoting green energy and resource solutions across sectors
- Supporting increased regional and international cooperation and integration

The EBRD's SME credit lines and support to commercialisation and private sector participation in state-dominated sectors have had a clear role in contributing to systemic changes related to enhancing competitiveness. Lending to SMEs has increased significantly due in part to the combination of EBRD's financing and TC support with PFIs. More widely, Uzbekistan's state-dominated financial sector is starting to operate on a more commercial basis, with EBRD clients gradually moving towards privatisation. In the energy sector, the Bank's financing and policy dialogue in support of private-sector renewable energy generation also constitutes a significant systemic change with respect to private sector participation.

In addition to increasing the role of the private sector, the Bank's renewable energy support has had a clear role in helping to promote green energy. There has been a change in how both private and public stakeholders view the renewable energy sector in Uzbekistan, which has translated into real results with respect to Uzbekistan's installed renewable energy capacity. However, there are no clear signs of systemic change from support to resource solutions, with limited implementation across MEI projects in particular.

The Bank's support to increasing regional and international cooperation and integration is centred on trade facilitation. These projects achieved their project-level outcomes but there is limited data to assess whether there were any wider systemic changes.

In assessing systemic change, EvD has been mindful that some systemic change outcomes take longer to materialise, and that this evaluation covers a relatively short time period. In that respect, EvD would emphasize that any current absence of evidence of contribution to systemic change does not necessarily imply that the Bank will not contribute towards systemic changes in the future.

3.1. Enhancing competitiveness by strengthening the private sector's role in the economy

92. **EBRD's support to enhancing competitiveness and strengthening the role of the private sector has spanned the sectors in which it has been active.** During this period, the EBRD has financed the first private-sector utility-scale power generation, supported ongoing privatisation of SOBs and provided both direct and indirect financing to SMEs as well as advisory business services.

3.1.1. Strengthening SMEs and the private sector – clear signs of systemic change from intermediated finance, less evidence of systemic change from EBRD's direct support

93. **There are three central mechanisms by which the EBRD has provided direct support for strengthening SMEs:**

1. Direct financing for private sector businesses and SMEs
2. Advisory for SMEs via the ASB Programme
3. Support for intermediated SME financing via partner financial institutions

Providing direct financing for private sector businesses and SMEs

94. **At this point the Bank's direct financing towards private sector businesses is unlikely to be significant enough to have a direct effect on strengthening competitiveness at the macro-level.** This is partly an issue of time; many of these projects were signed more recently or faced implementation delays as a result of the COVID-19 pandemic or the Russian war on Ukraine. This also reflects the wide range of sub-sectors within the portfolio, which reduced the prospects of EBRD's investments reaching a "critical mass" within any sub-sector.

95. **There are early signs of organisational change at the client-level, which with time could translate into systemic changes.** Clients provided examples of how they had changed their approach to meet the EBRD's requirements, including with relation to environmental standards, business decision-making, and gender equality in the workplace. However, it is too soon to assess the permanence of these change or whether they will catalyse wider market effects.

"The EBRD's standards were not only achievable, but also needed. This is helping our company, helping to make our decisions more structured." EBRD client

96. **There is potential for systemic change going forward in the pharmaceutical sector and within the Indorama capex project.** The Indorama project is piloting the first vertically integrated cotton and textile cluster, with clear potential to serve as a demonstration effect to other international investors. The Uzbekistan Country Strategy Diagnostics identified the Indorama project as one with the potential to act as an "aggregator" with greater value chain effects. As it is at the early stages of implementation it is not possible to observe aggregator effects, but the project does have clear upstream and downstream linkages. Multiple investments in the pharmaceutical sector, including in production facilities that are innovative for Uzbekistan, also have the potential to reach critical mass and change how the sector operates.

Supporting the growth of SMEs through the ASB Programme

97. **Currently the direct support provided to private sector businesses via the ASB Programme is unlikely to have meaningfully contributed towards systemic change.** The ASB has engaged with over 400,000 SMEs, but this constitutes less than 0.1 per cent of the total SME population. This suggests that there is unlikely to be any significant impact on SME competitiveness at the macro-scale from direct SME support, even though projects are achieving their project-level outcomes. Instead, to contribute to systemic change the expectation must be one of demonstration or market effects rather than reaching a critical mass through individual clients.

98. **Demonstration and market effects are supported through a range of promotional, awareness raising and market building services.** This includes a partnership between the ASB Programme and a popular YouTube channel on entrepreneurship, as well as partnerships with consultancy associations and Grow-Your-Consultancy Workshops to develop the business consultancy market. While these activities are essential to the programme's claims to systemic

effects contribution, there is limited data beyond outputs to assess the extent of any wider effects.

Developing SME financing through partnering with financial institutions

99. **There is concrete evidence of how the EBRD has contributed to organisational changes towards SME lending in PFIs, through both SME credit lines and TC.** Examples of changes directly supported by the EBRD within PFIs with respect to their approach to SME financing include:

- The introduction of underwriting standards for SME loans at Ipak Yuli.
- Supporting the creation of an SME business unit of UzPSB by providing training for employees on engaging SMEs, and on the SME customer acquisition process
- Introducing an SME lending technology and process at NBU and supporting the development of the newly established SME department

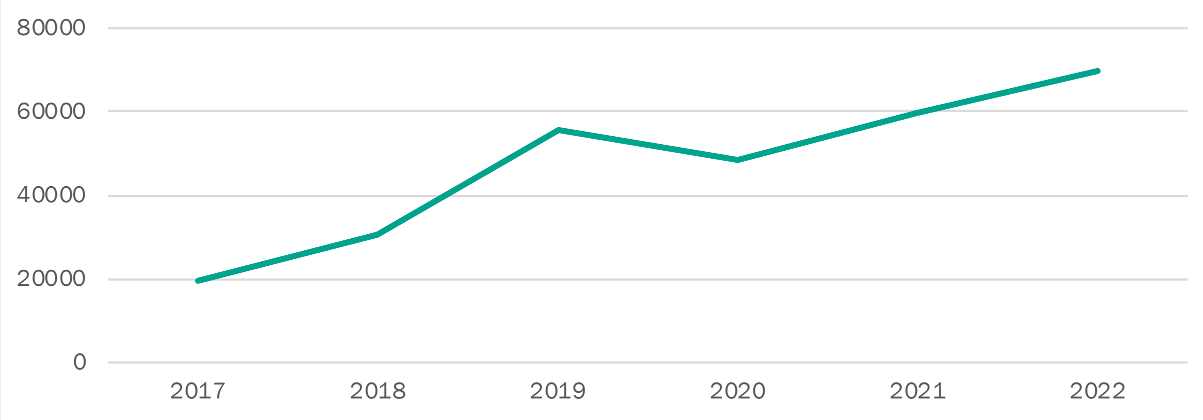
100. **Accompanying these organisational changes, lending towards SMEs increased significantly across the six PFIs where the EBRD provided support and where data are available.** In some cases, the growth of the SME portfolio has vastly exceeded EBRD's financing (e.g., NBU and Ipak Yuli). However, the documented evidence of EBRD's provision of technical support provides confidence that the EBRD has still contributed to this process (Table 6).

Table 5: Comparing SME portfolios in PFIs

Id	MSME portfolio at baseline	MSME portfolio as of most recent data
NBU	US$ 336 mn (as of Q1 2017)	US$ 1.7 bn (as of Q1 2021)
UzPSB (Sanoat Qurilish)	US$D 1.3bn (as of Q1 2020)	US$ 1.65 bn (as of YE 2021)
Ipoteka	US$ 248 mn (as of Q2 2017)	US$ 788 mn (as of Q1 2022)
Hamkorbank	US$ 168 mn (as of August 2017)	
Ipak Yuli	US$ 187 mn (as of August 2018)	US$ 451 mn (as of Q2 2022)
Davr Bank	US$ 32 mn (as of YE 2017)	US$ 84 mn (as of May 2022)

101. **Data provided by the National Bank of Uzbekistan provides evidence for wider systemic change.** Whilst there are various factors to explain this increase – not least the ongoing Uzbek Som depreciation, the support of other DFIs, and the government SME financing programme, "Every Family is an Entrepreneur", it is plausible to conclude that there has been systemic change with respect to SME financing and that the EBRD has contributed (Figure 9).

Figure 9: SME lending in Uzbekistan (Bn Uzbek Som)

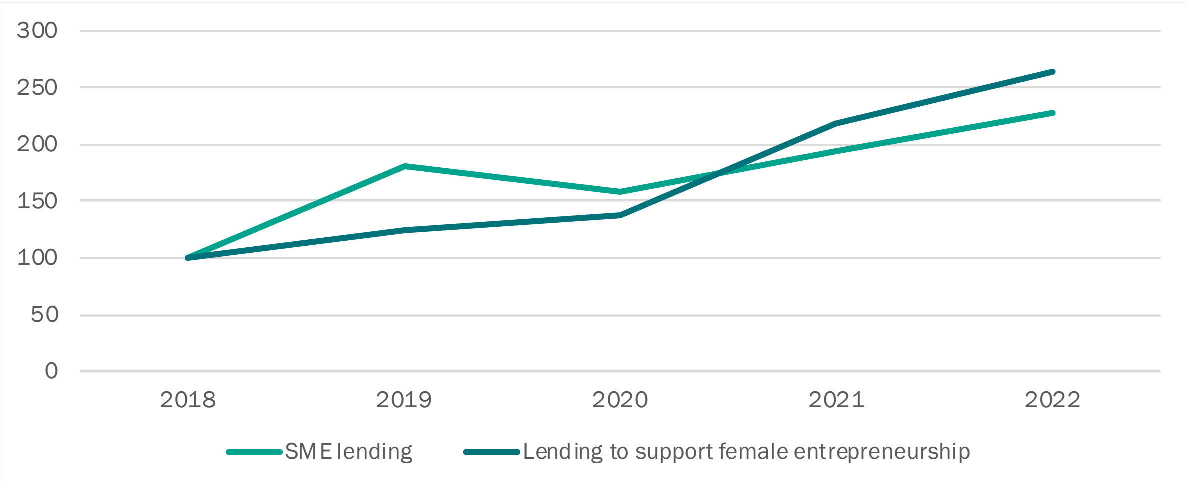


Source: CBU Data

102. **There are also positive signs of changes with financing directed towards women-led businesses.** Data from the CBU suggests that loans to support women's entrepreneurship have outpaced the wider growth in SME lending. Furthermore, loans to female entrepreneurs demonstrated the fastest growth from 2020-22, which coincides with the EBRD's introduction of WiB facilities. Without more granular data, it is impossible to establish direct causality, but it provides confidence that the EBRD has contributed to this picture (Figure 10).

"Female entrepreneurs make good clients – they are responsible and pay back." EBRD client

Figure 10: Comparing growth rates of SME lending and female entrepreneurship lending



Source: CBU Data

103. **Data on how increased SME financing has affected SME productivity and competitiveness is less clear.** However, this could be explained by the timelag between expanding SME financing and increasing productivity, as well as the impact of the COVID-19 pandemic and the Russian war on SMEs.

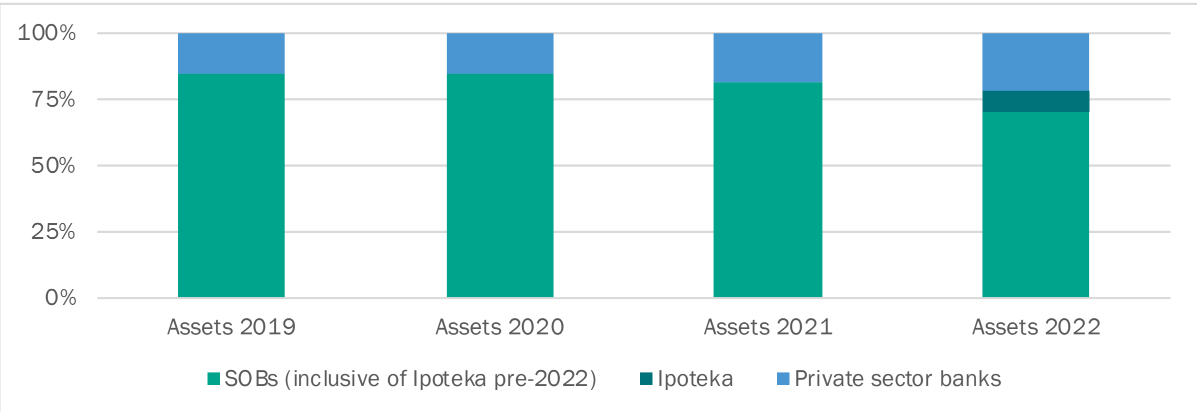
3.1.2. Increased commercialisation and private sector participation in state-dominated sectors – gradual progress driven by financing and policy dialogue.

104. **The Bank has been active in supporting commercialisation and private participation, most clearly in the FI and energy sectors as well as through wider policy dialogue.** There are clear examples of systemic changes to which the Bank has contributed, such as increasingly commercial practices at key SOBs and the first private sector utility-scale power generation.

Promoting commercialisation of the state-dominated financial sector

105. **Through directed lending towards private sector banks and supporting privatisation at SOBs, the EBRD has contributed towards increasing private sector participation in the financial sector.** The share of private-sector participation in the financial sector increased from 15.6 per cent in 2019 to 21.8 per cent in 2022 (as a share of total assets). The privatisation of Ipoteka, which was confirmed in December 2022, means an additional 7.9 per cent of the sector under private operation (Figure 11).

Figure 11: Share of Banking assets by year



Source: CBU Data

106. **Whilst the EBRD has contributed to this picture, there is no strong evidence that it has been the driver of change.** The growth in the share of private sector banks was driven by FIs that were not EBRD clients. Looking at the sector as a whole, private sector clients of the Bank increased their share of assets from 7.35 per cent in 2020 to 8.33 per cent in 2022. In comparison, private sector FIs that are not clients increased their share of assets from 8.3 per cent to 13.5 per cent, implying that private sector banks that are not EBRD clients recorded more impressive growth during that period. Most of this difference was the result of one FI, which the EBRD cannot work with for integrity reasons.

107. **There has been some progress on privatisation for clients where the EBRD is providing active support.** In December 2022 the Hungarian Banking group OTP (also an EBRD client) announced a deal to take a majority stake in Ipoteka, which went through in June 2023. The

OTP group had discussed the potential acquisition with the EBRD. EBRD's support provided reassurance to OTP on moving forward.

108. **Whilst neither of the other two PFIs (Asaka Bank and UzPSB) where EBRD is supporting privatisation have been privatised, there is evidence that the EBRD's support on transformation is having an effect.** Interviewees at Asaka Bank noted that although there were still significant gaps, internal capacity related to risk management, portfolio review, and corporate governance had improved substantially. The client's commitment to the transformation process is also demonstrated by the public plan it released on transformation, which describes the role that the Bank is playing on supporting the privatisation process[19]. Similarly, investor presentations and annual reports published by UzPSB demonstrate the institution's commitment to privatisation, and the role played by EBRD in partnership with other IFIs[20,21]

Supporting the first private-sector electricity generation

109. **EBRD's energy sector investments have strengthened the private sector and raised competition in electricity generation.** The Bank has provided private sector financing to both thermal power and renewable energy generation, the latter partially via a competitive auction process that has driven down the price of renewable energy generation. These transactions mark the first utility-scale private sector power generation in both renewable and non-renewable energy in Uzbekistan, helping to commercialise a critical state-dominated sector.

110. **The unbundling process initiated by the EBRD, which created a standalone transmission operator (NEGU), is another major step towards commercialisation.** Stakeholders from NEGU noted the new organisation's attitudinal shift towards private sector energy generation, as well as cross-border electricity market connections. Going forward, NEGU has ambitious plans that could further change how the system operates, including by supporting further unbundling into a single buyer and transmission operator and capital raising without a sovereign guarantee.

Engaging in policy dialogue on commercialisation and privatisation of SOEs

111. **The Bank's efforts in promoting commercialisation across sectors were complemented by non-transactional policy dialogue on SOE reforms and privatisation.** The Bank contributed to the drafting of a new Public Property Management Law and Privatisation Law. It worked with the State Assets Management Agency to promote improved governance and support transparent privatisation of key industrial SOEs and drafted the state ownership strategy for a level playing field between private companies and SOEs. The Bank further supported the implementation of the strategy, coordinating this work with other IFIs.

112. **However, this is a challenging and ongoing process.** SOBs interviewed by EvD emphasised the continuing importance of policy-based lending and the difficulty in managing a legacy portfolio. Lending to SOEs continues to absorb surplus capital and liquidity, despite the recognition that a pivot towards SME and retail lending is a critical part of the transformation process. Wider corporate governance is also still an issue. The Uzbekistan Country Diagnostics identified examples of cases where independent directors on SOB supervisory boards had limited effect with politically appointed management continuing to exercise control.

[19] https://back.asakabank.uz/media/files/%D0%90%D1%81%D0%B0%D0%BA%D0%B0_%D0%B1%D0%B0%D0%BD%D0%BA_%D0%B8%D0%BD%D1%84%D0%BE_%D1%84%D0%BE%D1%80%D0%BC%D0%B0_%D0%A6%D0%91_%D1%8E%D1%80%D0%B8%D1%81%D1%82.pdf
[20] https://www.sqb.uz/upload/files/SQB_1HY2022.pdf
[21] SQB Annual Report 2020

3.1.3. Developing the business environment – some positive signs from improving governance and supporting digitalisation

113. **The EBRD has employed a range of tools to improve the business environment in Uzbekistan.** In assessing the extent to which the EBRD has contributed to systemic change in this area, EvD focused on three dimensions where the EBRD provided significant support and where there were clear results:

1. Strengthening corporate governance at PFIs
2. Supporting the digitalisation of financial services
3. Improving the reliability of electricity supply

Strengthening corporate governance at PFIs

114. **In addition to targeted lending, the EBRD has been supporting corporate governance with PFIs.** Whilst difficult to quantify, there are some concrete examples of how corporate governance at individual clients has improved, such as the adoption of a climate corporate governance policy at Ipak Yuli Bank, or the development of an ESG policy at Ipoteka Bank.

115. **Interviewees suggested that corporate governance improvements in EBRD clients were driving regulatory changes.** Clients noted that after engagement with the EBRD in areas such as climate corporate governance and operational risk, the regulator had opened discussions on new regulatory requirements in these areas. Although still an ongoing process, this demonstrates how improvements in standards can become embedded in regulations for wider systemic change.

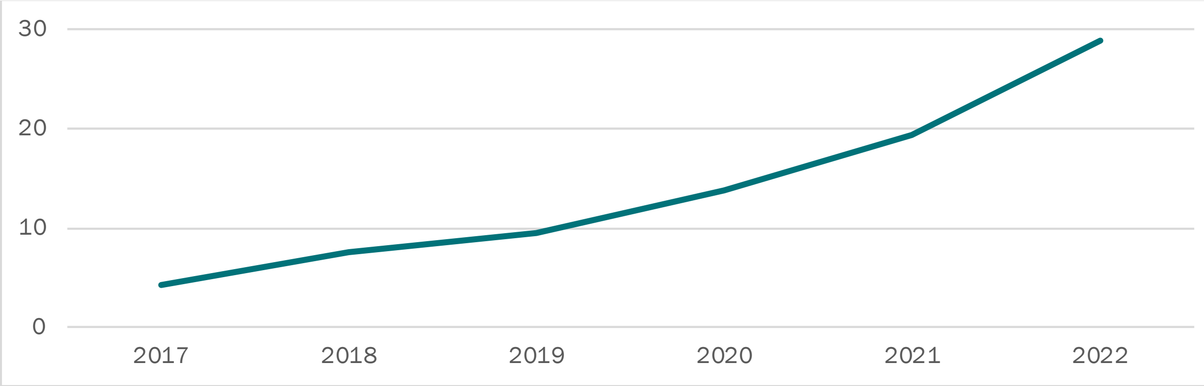
Supporting digitalisation of financial services

116. **During the period covered by this evaluation, there has been a significant digitalisation of financial services in Uzbekistan, which marks a critical step forward for modernising Uzbekistan's business environment.** Examples include the launch of mobile apps by several banks, the entry of the first "digital-first" bank into the market (TBC Bank) and increasing back-end digitalisation of banking services.

117. **There is some evidence that the EBRD played a small role in this process.** Although not the sole factor, the Bank's equity investment in TBC Bank has enabled it to scale-up its digital-led model more rapidly: after a year of operation, TBC Bank acquired over two million customers. TBC Bank has also initiated several discussions with the CBU on developing a regulatory framework for digital banking for which, interviewees explained, having the EBRD as a strong shareholder was critical in regulatory discussions.

118. **EBRD has also supported the creation of a Remote Identification System (RIS) to provide the infrastructure necessary for expanding digitalisation of financial services.** The number of individuals using remote banking systems rose from 4.2 million in 2017 to 28.8 million in 2022. Not all of this can be attributed to the RIS: the use of remote banking services was climbing rapidly prior to the introduction of the RIS whilst the COVID-19 pandemic provided momentum for increasing digitalisation. The increase in the number of remote banking users over 2021 and 2022 also significantly exceeds the 2.6 million RIS users registered at the end of 2022. However, given the large number of users and range of banks utilising the RIS platform, there is good evidence that it contributed significantly to this wider systemic shift towards digital banking services (Figure 12).

Figure 12: Number of remote banking users, in millions



Source: CBU Data

Improving the reliability of energy supply

119. **In the future there is scope for EBRD investments into the energy sector to support an improved business environment.** The BEEPS survey implemented by EBRD found that access to electricity was the second most pressing challenge facing SMEs in Uzbekistan, with SMEs reporting that they face an average of almost eight electricity outages each month. Investments into electricity generation and transmission grid infrastructure could address these gaps and strengthen the business environment; in particular, all three transmission grid projects financed by the Bank have tangible targets related to reducing transmission losses. However, construction of these projects is still ongoing and therefore would not have made an active contribution toward competitiveness or toward improving the business environment during the period under review.

3.2. Promoting green energy and resource solutions across sectors

120. **A core component of the Uzbekistan Country Strategy 2018-23 was to promote green energy and resource solutions across sectors.** Operationally, activities could be categorised under three main streams:

1. Promoting renewable energy
2. Supporting energy efficiency in the private sector
3. Improving resource efficiency and service delivery through MEI investments

3.2.1. Opening up Uzbekistan to renewables – a clear systemic change

121. **There has been a substantial effort to promote and support green renewable energy.** In addition to providing direct financing for renewable energy, the EBRD has engaged in policy dialogue to support the enabling environment for green energy and has provided financing to other parts of the energy system that are conducive to green energy. This has directly led to the first utility-scale operational renewable energy power plants with more in the pipeline.

122. **There is solid evidence of systemic change in how stakeholders view the energy sector.** Both the government and private sector investors have demonstrated increased interest in support renewable energy, a result which can be directly related to EBRD's role.

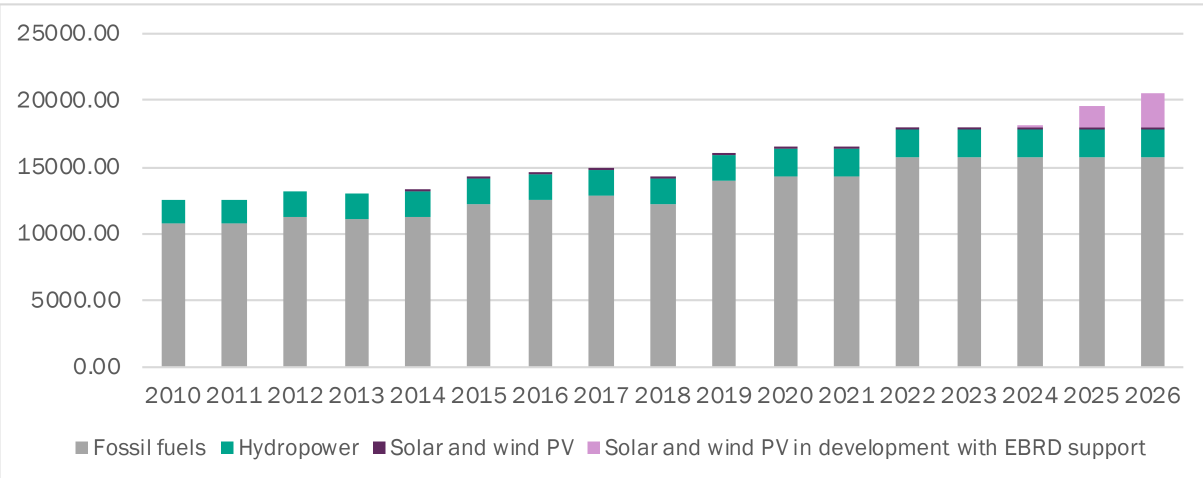
"The intention is to increase the share of renewables in the long term planned energy mix of Uzbekistan because in the latest PV tenders, the low tariffs discovered in the competitive process have brought optimism to the Ministry of Energy."
Ministry of Energy Press Release

123. **The changing level of government support to the renewable energy sector is demonstrated by the increase in targets for renewable energy generation.** Between 2020-22, the government increased the 2030 target for renewable energy generation from solar and wind from 7GW to 12GW, based upon the successful auction process and the low prices achieved. This has led to positive revisions to other environmental targets too. In 2021, the government updated its Nationally Determined Contribution (NDC) under the Paris Agreement to target a 35 per cent reduction in greenhouse gas emissions by 2030 from 2010 levels -- compared to the previous goal of 10 per cent reduction.

124. **The interest from both the private sector and government has also been demonstrated by the scale-up of competitive renewable energy auctions, particularly in solar.** From the first solar auction in 2019 to the most recent in 2022, the auctions have become bigger, have attracted a larger range of bidders, and have led to lower prices. The first solar auction in 2019 attracted 23 bidders and a winning price of US$ 2.68 per kWH for a 100 MW facility; the next round had 54 pre-qualified bidders and a winning price of US$ 1.80 per kWH for a 457 MW plant. Subsequent rounds have introduced further innovations such as battery storage. The interest from investors reflects the attractiveness of the regulatory regime and the security provided by IFI financing.

125. **These projects have started contributing towards changing Uzbekistan's energy system.** However, as of YE 2022, the only projects that were fully operational and generating electricity were Samarkand Tutly and Nur Navoi solar. Forecasts of Uzbekistan's electricity generation going forward demonstrate the extent to which renewable energy projects supported by the EBRD are shifting Uzbekistan's electricity mix, but also illustrate the strong fossil fuels presence.

Figure 13: Electricity generation in Uzbekistan (GWh)



Source: IRENA Data, EvD elaboration

126. **With respect to physical grid infrastructure, it is too early to consider systemic change.** Projects are still in the construction phase, with no impact as yet on improving energy reliability, increasing energy efficiency, or actively supporting the development of renewables.

3.2.2. Improving energy efficiency through supporting the private sector – project-level outcomes on-track but without systemic change

127. **EBRD projects are unlikely to have had any macro-effect on energy or resource efficiency.** Several private sector projects have goals related to improving energy and resource efficiency. Some of these projects have faced delays in implementation or have any only recently started. Where projects have achieved their project-level outcomes, given their size and EvD observations, it is unlikely that they have had any wider macro-effect on energy or resource efficiency or have catalysed systemic changes.

128. **The introduction of GEFF financing lines provides another avenue by which the Bank has supported resource solutions.** With less than USD 20 million disbursed between 2018-22 under GEFF credit lines, despite having achieved their project-level outcomes the financing is unlikely to have made a significant contribution to systemic change or nationwide energy efficiency. However, the introduction of GEFF financing lines has helped PFIs consider green financing as a market offer, although it is not clear if they would consider it as a viable standalone option without the support and subsidies provided as part of it.

3.2.3. Improved resource efficiency through supporting the public sector – no signs of systemic change given limited implementation

129. **Promoting resource solutions via municipal infrastructure investment has been less successful.** Although there is scope for substantial environmental benefits from the water and wastewater treatment plants the EBRD has committed to finance, the delayed implementation means that there are no signs of the Bank's contribution currently.

3.3. Supporting increased regional and international co-operation and integration

130. **The Uzbekistan Country Strategy 2018-23 set out two areas under which the Bank envisaged providing support against this strategic priority:**

1. Improved quality and connectivity of transport, energy and ICT networks
2. Using trade finance to support imports and exports

3.3.1. Improved quality and connectivity of transport, energy and ICT networks – limited EBRD involvement

131. **The EBRD aimed to see improved quality and connectivity of transport, energy and ICT networks by 2023 under this strategic priority.** It is unlikely to have contributed to that objective. The Bank did not sign any transactions in transport or ICT over 2017-23, whilst implementation on (domestic) energy connectivity projects is ongoing.

3.3.2. Trade finance – in demand but difficult to draw links to systemic change

132. **The primary instrument the Bank has used to meet this strategic objective is the use of trade financing lines with PFIs.** These have been utilised by clients and achieved their project-level outcomes. However, whether this has had any material effect either on the volume of trade financing in Uzbekistan or on trade levels is not clear. Data on market-wide trade financing volumes are not available and given the extensive disruption that both COVID-19 and the Russian war have had on trade it is challenging to draw any connection between trade finance and trade.

133. **There is some evidence that suggests PFIs are more open to trade financing.** During interviews, clients suggested that through the EBRD's support they had developed a better understanding of trade financing and were able to offer more sophisticated and longer-tenor products. Even PFIs that had a comparatively large pre-existing trade finance business, such as Asaka Bank, acknowledged the positive contributions of the EBRD's support.

"We were doing trade finance before, but it was not well understood. It has been a big step forward since the EBRD engagement began - more and more clients are trying to solve problems with trade finance rather than direct loans."
EBRD client

134. **However, there is limited data available to draw conclusive judgments on how the wider trade finance market has developed.** There is no data available on total market size and limited information on how trade finance portfolios within EBRD's clients have changed. This makes it challenging to understand the direction of wider trends and to contextualise the EBRD's contribution. Downstream effects on enhanced exports and regional and international trade are even more difficult to ascertain, particularly given the external shocks during this period.

4. Insights and Recommendations

4.1. Key insights

The Bank's re-entry into Uzbekistan has been a success story, with significant institutional growth and clear value-added. "On the ground" presence was a major driver of success. However, the EBRD's position in Uzbekistan is still mostly dependent upon government commitment to the reform agenda.

135. **For the EBRD in Uzbekistan, 2017-22 was unique for the institution with the reopening and gradual growth of its office.** At the start of 2017, there was no office, country director or full CS to guide activities in Uzbekistan. By the end of 2017, a country director had been appointed, with a small team of five operating from a hotel meeting room. Today, the Tashkent RO is approaching a headcount of 50, with regional offices in Andijan and Urgench and in 2022 it recorded the fifth highest investment volume at the country-level for the EBRD. This represents significant and impressive institutional growth, which is to be recognised.

136. **The EBRD's operations in Uzbekistan are largely directly reliant upon continuing government support.** Beyond the sovereign lending, a significant proportion of the Bank's private-sector investments in Uzbekistan are state-dependent, either because they are transactions with state-owned banks, or because they are investments to support private sector renewable energy generation with a public sector off-taker. Despite the impressive growth the EBRD has experienced in Uzbekistan, this dependency means that the Bank's situation is still fragile and conditional upon the government of Uzbekistan's commitment to ongoing strategic reforms. This presents a degree of political economy risk, particularly given that in some areas there are strong vested interests resistant to further change and reform, and that reform processes are increasingly tackling complex and challenging topics. EvD would not suggest that this is a criticism of the Bank's performance, but rather an observation around the continuing degree of risk that the Bank faces in Uzbekistan going forward

Contribution towards systemic change has been clearest in areas where the Bank has used a wide range of tools (financing, TC, and policy dialogue), repeat transactions, or market platforms/aggregators to deliver.

137. **The EBRD's clearest contribution to systemic change has been within the energy and financial sectors.** Across both these sectors, a common theme is that the Bank has utilised a wide range of different instruments to deliver support. In energy, for instance, beyond financing for private sector renewable energy generation, the EBRD has also financed public grid infrastructure, delivered capacity building to state counterparts, and contributed via policy dialogue to the renewable energy competitive auction process. This suggests that aiming for systemic change outcomes requires taking a multi-dimensional approach.

138. **Repeat transactions are also effective in inducing client and organisational change.** In the FI sector, for example, the Bank typically had a range of different projects with the same client, covering different thematic areas (e.g., SME credit lines, trade financing, and GEFF). Viewed in isolation, these projects delivered their individual project-level outcomes, but it is more challenging to understand their contribution towards either client-level organisational change or systemic change. Taken together, it is easier to see how a range of different projects with the

EBRD have helped to gradually change client behaviour and raise standards, and through doing so contribute to wider systemic change.

139. **Market platforms and aggregators can provide a more realistic avenue for contributing to systemic change.** The direct financing provided to private sector companies as well as the ASB Programme demonstrate the potential difficulties of trying to catalyse systemic change by providing support to individual companies particularly in fragmented economies where actors are small. The ASB for example, is unlikely to achieve systemic change through direct support to SMEs, where it currently has about 100 projects per year, in a country with over 400,000 registered SMEs. In comparison, using market platforms (such as the YouTube channel partnership pioneered by the ASB team) or value chain aggregators as entry points has the potential to reach scale quickly and by doing so achieve systemic change.

The EBRD is the only IFI that has demonstrated capacity to reach both small and large private sector companies through a range of instruments including financing and advisory services through the ASB Programme.

140. **In delivering support to the private sector, the EBRD has found a clear role to play in providing value in Uzbekistan.** Supported by its on-the-ground presence and instruments such as the RSF that help enable smaller transactions, the EBRD has been active in providing support to private sector companies with limited recourse to either financing from other IFIs or from international commercial banks, both financially and through technical advice. Whilst the contribution towards systemic change is less tangible in this area, there are examples of successful project-level outcomes that have been achieved; more broadly it is an area where the EBRD's additionality is highest.

Signing projects with unrealistic timelines risks creating skewed expectations for both internal and external stakeholders and slow delivery reduces flexibility for the Bank moving forward due to concentration risk.

141. **There is currently limited implementation progress on the Bank's MEI projects.** With disbursement rates at just 3 per cent (excluding projects signed in 2022), these projects have not yet entered physical implementation or started CDPs to strengthen counterpart capacity, despite, in some cases, original target completion dates of end-2022. There is some data to indicate that disbursement rates on comparable projects at other IFIs is higher. Stakeholder feedback also suggests that slow implementation and disbursement are unique to EBRD in the sector and partially attributable to a lack of understanding of political economy considerations for projects in this area.

142. **This limited progress has implications for stakeholder expectations.** Internally, the low disbursement rates and limited concrete progress on implementation (including on TC components) highlight MEI as an area with potential challenges. Externally, falling behind implementation schedules raises costs for clients (including via commitment fees), frustrates stakeholders, and negatively effects the EBRD's capacity as a credible organisation to deliver. Where the Bank has managed to sign projects, the slow rate of disbursements has led to the main counterpart's unwillingness to engage on further projects with the EBRD until there has been more concrete progress on the current portfolio.

143. **Beyond the immediate non-delivery of projects, this situation also influences how the Bank can engage in Uzbekistan going forward.** The slow disbursement rates and long tenors of sovereign MEI projects have contributed to the EBRD rapidly nearing its sovereign limit in

Uzbekistan and potentially constricting the Bank's capacity to sign additional sovereign projects and respond to government demand going forward.

The Bank was not able to find ways to provide meaningful value in the time-period under evaluation in relation to integrated infrastructure.

144. **With the exception of the TFP the EBRD did little to address the strategic priority around targeting regional integration.** The ICHF was closed with no material results despite its clear potential for strengthening tourism in Uzbekistan, whilst the Bank made little headway in improving transport and IT infrastructure or improving regional energy connectivity.

Country-level evaluations can provide a valuable perspective for assessing the Bank's contribution to systemic change, alongside other mechanisms for capturing project-level outcomes.

145. **The rationale for conducting this country-level evaluation was based on the premise that it would highlight how the Bank contributes to systemic change.** Although the importance of systemic change is widely recognised, it is difficult to capture and track as part of project-level monitoring systems. This exercise has demonstrated the potential of country-level evaluations to capture systemic changes to which the Bank has contributed, such as in the energy or financial sectors and by doing so provide a more comprehensive picture of performance and generate useful lessons on how to deliver systemic change in the future. Furthermore, EvD's view is that country-level evaluations could provide an important and independent perspective as part of the country-strategy development process.

4.2. Recommendations:

146. **Based on these findings, EvD is suggesting four recommendations**: two focused on the Bank's strategy in Uzbekistan and two operational recommendations for activities in Uzbekistan.

4.2.1. Strategic recommendations

147. **Recommendation 1: Focus efforts on strategic priorities where potential impact and additionality are clear. If the Bank continues prioritising regional connectivity, given the lack of delivery so far in this area, propose a targeted and evidence-based approach in the new strategy laying out where the Bank sees feasible opportunities to deliver and additionality in doing so.** Beyond the Bank's TFP programme, which is effectively ubiquitous across the regions in which the Bank operates, there was limited headway in addressing the strategic priority of strengthening Uzbekistan's regional integration. The Bank's pilot ICHF framework, which was aimed at the tourism sector, was closed with limited results; there has been no activity in IT infrastructure, and progress on transport infrastructure has been challenging. Given the resource constraints the Bank faces, and in particular the limited manoeuvrability under the sovereign investment limits, this raises the question of selectivity and whether the Bank should continue to prioritise this area. If the new country strategy does continue to prioritise regional connectivity, EvD recommends an extended analytical process to take stock and identify areas where the EBRD can feasibly add value and deliver transition impact. A specific roadmap for implementation would also be useful and lend confidence that the Bank can deliver in this critical but challenging area.

148. **Recommendation 2: Identify and promote systemic change mechanisms as part of both direct financing to the private sector and the ASB programme. These may include focusing on aggregators, targeting strategic sub-sectors with the greatest potential for fostering systemic change and promoting market-building activities.** Looking at the Bank's support to the private sector highlights the challenges of trying to catalyse systemic change when providing support across a wide range of sub-sectors or in highly fragmented markets. In the case of the ASB Programme, for example, which is very active in Uzbekistan, the number of SMEs that received ASB support is less than 0.1 per cent, which makes contribution to wider systemic change less plausible. Similarly, there were few signs of systemic change stemming from direct private sector financing.

149. EvD recognises that elements of the Bank's approach within the support to the private sector and the ASB programme already embed systemic change mechanisms. Examples include the 'Grow Your Consultancy' sessions organised by ASB, as well as the use of digital platforms such as YouTube to reach large numbers of market participants. The projects with Indorama also demonstrate the potential for systemic change effects, as an aggregator within the market system.

150. However, the ASB KPIs and the impact dashboard it uses to track records are much more attuned to the inputs and individual outcomes from local advisory projects, rather than market building activities (e.g. supporting the development of business consultancy services/other mechanisms of SME ecosystem support). Similarly, for ICA projects under the SBI the KPIs do not have systemic change components, and within the current country strategy there is limited attention as to which sub-sectors have the greatest potential for systemic change, or how to focus on systemic aggregators.

4.2.2. Operational recommendations

151. **Recommendation 3: Explore mechanisms to address political economy risks in the preparation of MEI projects and factor in better such risks when specifying project timelines.** Sovereign infrastructure projects in Uzbekistan have been challenging: as of YE 2022, two were cancelled, two were on hold, and the remainder had not started physical implementation. The primary reason for these delays is the political economy risk and fluctuating political economy climate in Uzbekistan, which puts the onus on the Bank to prepare and mitigate this risk accordingly, as well as being realistic in communicating likely project delivery times during the project approval stage. One potential mechanism to mitigate political economy risk would be to explore models used by other MDBs in Uzbekistan with more project preparatory work funded through TCs prior to signing, although EvD recognises that this approach also has costs.

152. EvD would also suggest that a more realistic approach to project timelines in Board documents for project approval would give a more holistic view of the costs and opportunities associated with each project, improving the Bank's ability to focus support on sovereign projects where there is the highest potential for transition impact and feasible implementation.

153. **Recommendation 4: Explore and address barriers that are restricting PFIs from bringing potential transactions under the Risk-Sharing Framework to the EBRD.** The EBRD has made headway with the Risk-Sharing Framework in Uzbekistan. However, PFIs have not brought projects to the EBRD. Part of the rationale for the RSF is to give the EBRD opportunities to provide funding to SMEs which otherwise would not appear on the organisation's radar, improving the capacity of the EBRD to reach smaller companies. EvD would recommend a clear identification of the barriers that PFIs face in brining transactions under the RSF, and a strategic approach to address those barriers over time.

ANNEXES:

Annex 1. Country-Evaluation methodology

EvD's methodology for conducting this pilot country-level evaluation is based on three primary components:

1. A clear approach to initial country selection
2. A theory-based approach towards understanding contribution to systemic change
3. Guided by a set of evaluation questions and an evaluation framework

In developing this pilot methodology, EvD reviewed approaches employed by comparator institutions in conducting country evaluations and then adapted best practice principles to EBRD's organisational context. EvD will engage with stakeholders after the pilot country-level evaluation has been finished to change and iterate this approach and methodology based on discussions of what worked well and what was less effective.

A clear approach to initial country selection

EvD's methodology for conducting country-level evaluations uses seven criteria and a three-stage process to help select a country:

1. **EBRD's timelines to prepare a new strategy**; the evaluation should feed into the next Strategy, as well as ensuring that there has been a sufficient window of implementation under the current strategy to enable a meaningful assessment. As a starting point, this provides a relatively narrow window of potential countries for any given time period.
2. **Special requests from Management and governing bodies**; EvD will be responsive to requests for an evaluation of a particular country if there is clear wider strategic rationale.
3. **Size of portfolio.** The selected country should have a portfolio large enough to enable analysis of cumulative or systemic effects.
4. **Portfolio size relative to GDP.** A key objective of a country level evaluation is to provide a new analytical lens for assessing systemic effects. EvD's assumption is that the likelihood of observing systemic effects will increase as the portfolio size relative to GDP increases.
5. **Political economy of a country.** It is more challenging to assess EBRD's results in a country where the political situation has been very dynamic, implying a large number of exogenous events outside of the Bank's control.
6. **Degree of representativeness.** Selection of a country where the portfolio demonstrated a good balance between different sectors, there were a range of significant TC initiatives, and sovereign financing was not over-represented.
7. **Evidence requirements and synergies with EvD Work Programme**: EvD will use the CE as data points for other parts of the Work Programme (e.g., for a thematic evaluation); and where possible will look for synergies and overlap to ensure complementarity.

Stage 1: Assessing EBRD's timelines of preparing a new CS

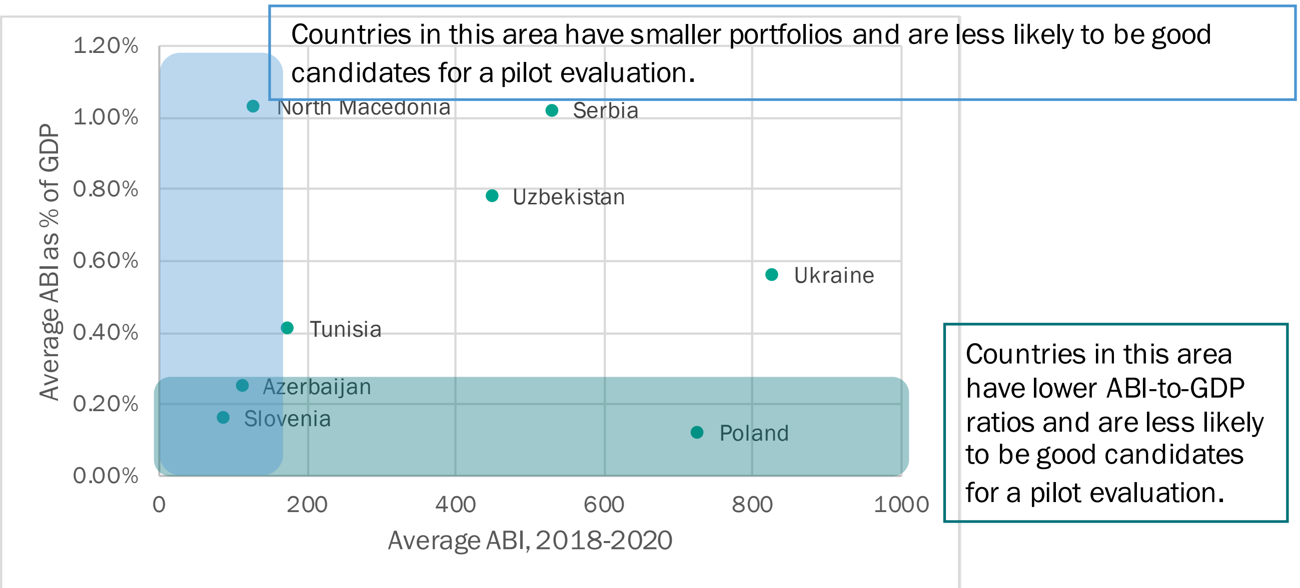
The starting point for selecting a country is analysing the planned timelines for upcoming country strategies. To maximise usefulness, EvD will aim to time the delivery of the Country-level

Evaluation before the future CS is approved. For any given time period, this provides a relatively narrow shortlist of countries from which to select (in this case; Serbia, Poland, Ukraine, Uzbekistan, Tunisia, Slovenia, Azerbaijan, and North Macedonia).

Stage 2: Looking at portfolio size in absolute and comparative terms (relative to GDP)

Portfolio size and portfolio size relative to GDP are both critical selection criteria. Applying these criteria to the small subset of countries outlined above provides another filtering lens for country selection. In this case, it suggests that Poland, Azerbaijan, Slovenia, and North Macedonia are unlikely to make good candidates for the pilot country-level evaluation (Figure 14).

Figure 14: Comparison of ABI to GDP



Stage 3: Examining political economy, degree of representativeness, and usefulness

Using the final selection criteria provides the rationale for the selection of Uzbekistan. Given the Russian-led war on Ukraine, it is not a feasible candidate for a country-level evaluation. In Tunisia, there is ongoing political turmoil after the President dismissed the Prime Minister and suspended parliament by invoking emergency powers, in June 2021. Whilst there has been recent unrest in Uzbekistan, it has been localised to a specific, sparsely populated regional area. Uzbekistan's portfolio is also more diverse than Tunisia's, and as an Early Transition Country (ETC) is a priority area for the Bank.

A theory-based approach towards understanding the contribution to systemic change

EvD's approach is theory based and therefore built around developing ex-post a ToC which is based on the country strategies available (unless a ToC already exists, although the current CS format does not use fully articulated ToC). The ToC identifies the causal pathways and key assumptions of the changes (and transition impacts) to which EBRD is expected to contribute and the core areas and cross cutting themes on which the CE will focus.

Theory-based approaches seek to:

- Understand the underlying operating mechanisms that generate the observed changes. Hence, theory-based approaches go beyond assessing "what has changed" to answer the more difficult questions of how, why, where and for whom as well.
- Identify and explain the influence of the social, political, economic context on the strategy results and transition impacts.

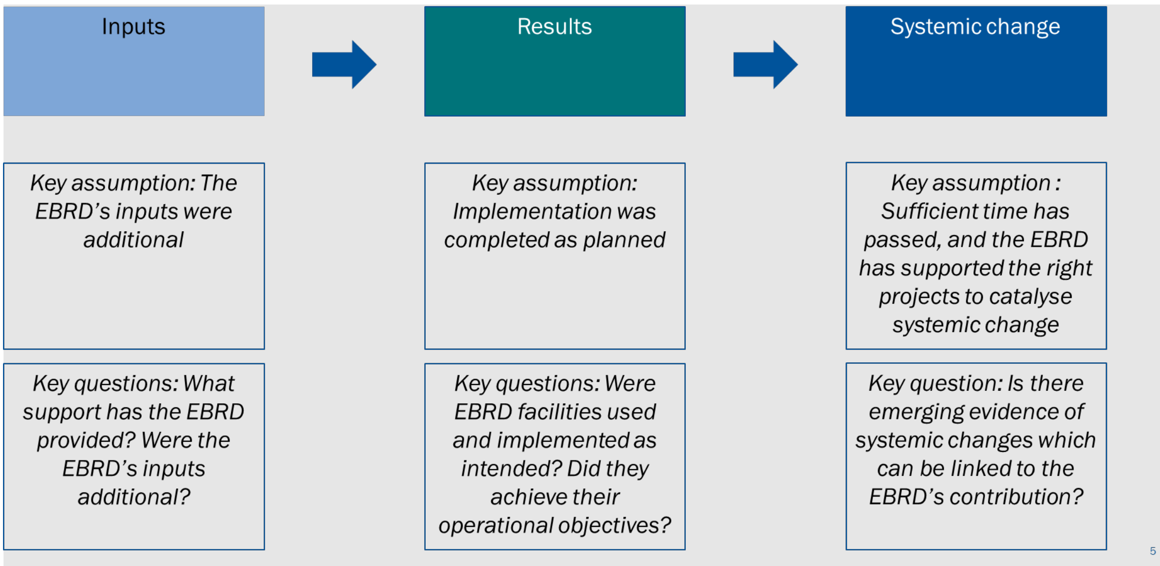
The methodology employed by EvD uses a theory-based approach using a three-stage process.

The first stage was identifying initial areas of sectoral focus for the Bank. The selection of sectoral focus areas reflects the areas of concentration of the Bank's portfolio in Uzbekistan – based on the assumption that a prerequisite for influencing systemic change is critical mass in implementation. This process recognises that in most cases systemic change happens initially at a sectoral level, as a result of changing behaviours, norms, rules, or incentives within a particular sector. Systemic changes within one sector then have potential to drive or catalyse systemic changes in interrelated sectors and within the rest of the economy. The four sectoral areas identified by EvD for the purpose of this evaluation were:

1. Support to financial institutions
2. Modernizing and decarbonising electricity systems
3. Support to private sector development and competitiveness
4. Reforming and upgrading municipal infrastructure

The second stage was to develop a structured ToC for each area. For each focus area, EvD reconstructed a ToC based on a review of documents, interviews with EBRD colleagues in the Tashkent RO and in HQ, and a workshop held with the Tashkent RO staff. These ToCs were then used as a framework to map and collate the data that EvD was gathering, providing a structure to illustrate how much evidence there is for the EBRD's contribution towards systemic changes (Figure 15).

Figure 15: A Theory of Change framework



In using a ToC approach, EvD focused on understanding the contribution of the EBRD towards systemic change, rather than attributing systemic change to the EBRD. Systemic change involves complex, non-linear processes with multiple interrelated factors and actors, making it difficult to isolate the effects of a single organisation. Assessing contribution rather than attribution provides a more realistic and nuanced understanding of how the EBRD has helped to promote systemic change.

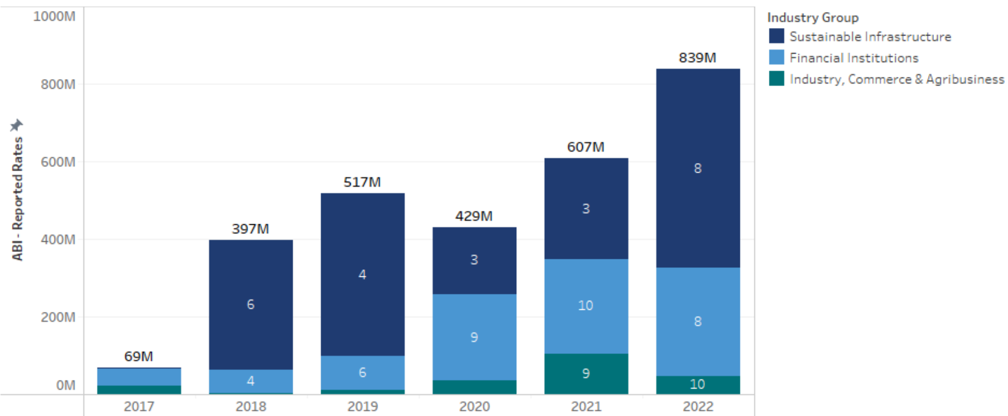
The third stage was to synthesize systemic changes at the level of the EBRD's wider strategic objectives in Uzbekistan. This used a "double-entry" matrix approach which maps areas of potential change at the sectoral level versus each of the Bank's strategic priority areas.

Annex 2. Uzbekistan portfolio overview

Annual business volume[22]

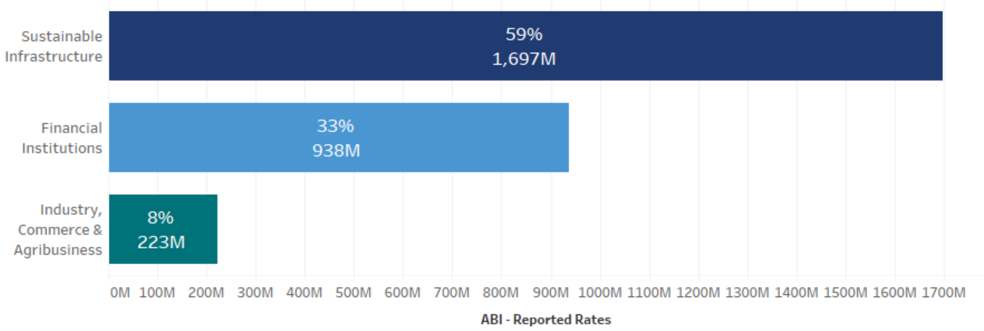
The total Annual Bank Investment (ABI) in Uzbekistan was €2.858 billion in the period 2017-22. After re-engagement with the country in 2017 the ABI grew steadily each year except in 2020 (Figure 16). In terms of sectors, the biggest share of ABI was delivered by Sustainable Infrastructure operations (SI, €1.7 billion, 59 per cent), followed by Financial Institutions (FI, €0.9 billion, 33 per cent) and Industry, Commerce and Agribusiness (ICA, €0.2bn, 8 per cent) (Figure 17). SI ABI comprised of Energy operations (€1.1 billion) and Municipal infrastructure operations (€611 million). The largest share of FI ABI was contributed by TFP (€547million) and SME credit lines (€230 million). The largest share of ICA ABI came from stand-alone operations (€115 million) and from sub-operations of the direct financing frameworks (DFF, €99 million)(Figure 18). Over this period, ABI in Uzbekistan also grew rapidly as a share of the ABI of Central Asia, and in 2022 assumed over half of the regional ABI (56 per cent), followed by Kazakhstan (32 per cent) (Figure 19).

Figure 16: ABI in Uzbekistan and number of operations, 2017-22



Note: TFP operations are not included in the project count but are included in FI ABI volume.

Figure 17: ABI in Uzbekistan 2017-22, volume and share by sector



[22] This portfolio analysis uses data from DW_Banking_Operational as at month end December 2022 unless otherwise indicated. Analysis by EvD.

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Figure 18: ABI in Uzbekistan 2017-22, by sector

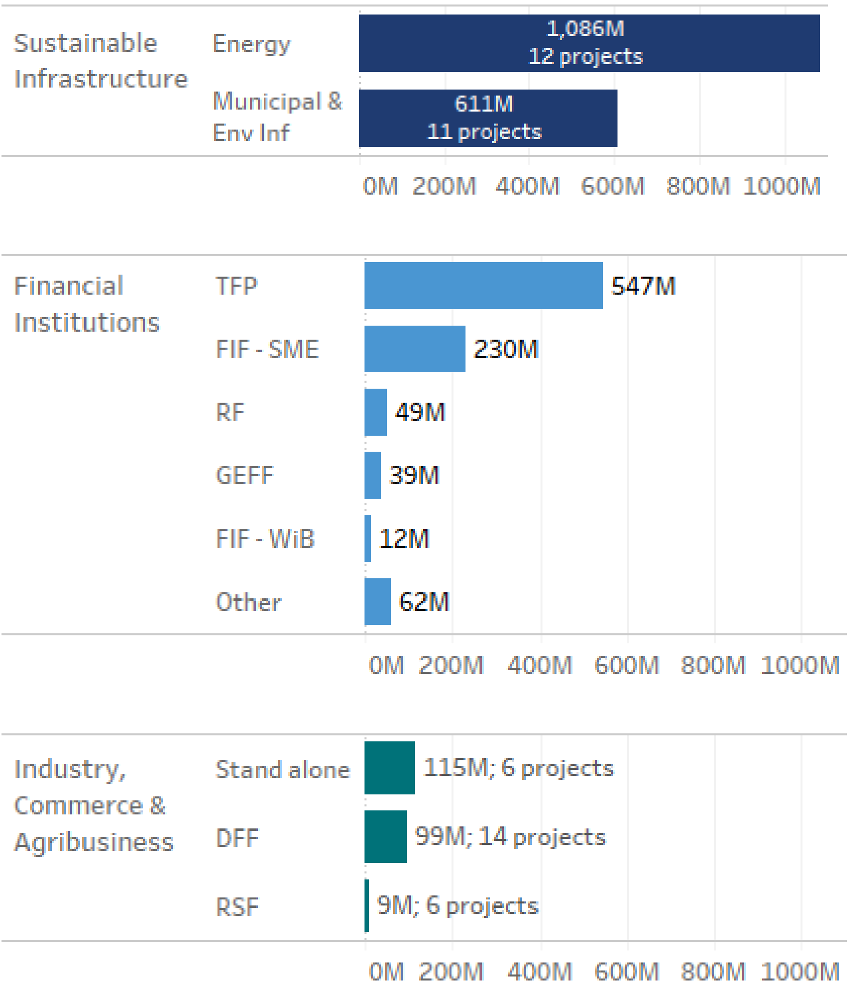
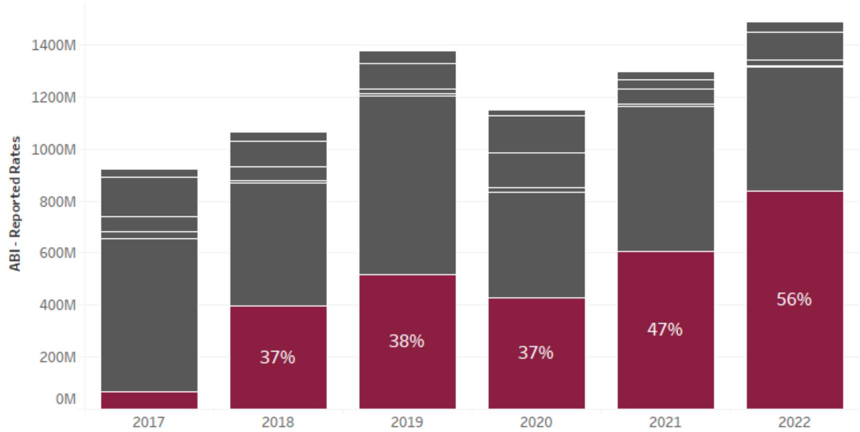


Figure 19: ABI in Uzbekistan 2017-22, as share of regional ABI (Central Asia)

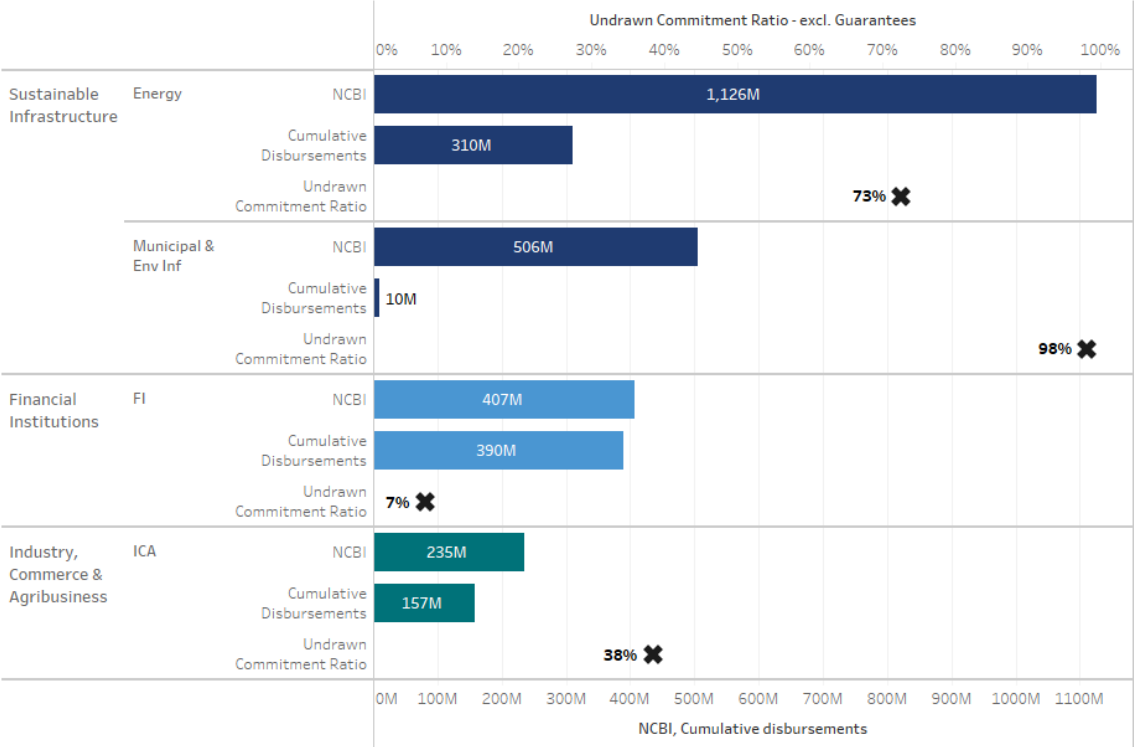


Cumulative investment, disbursements and cancellations

Net cumulative bank investment (NCBI) reflects the ABI sectoral split, while undrawn commitment ratio is particularly high in the SI sector. The NCBI for operations signed from 2017 onwards reached €2.273 billion (excluding TFP operations), mirroring the sector split of ABI. Over the course of the 2017-22 period two operations were fully cancelled, both in municipal sustainable infrastructure. The total value of these cancellations was €122 million. The disbursement of commitments has been uneven across sectors. While SI represents the largest NCBI sector by far, it also has the biggest share of undrawn commitments at 80 per cent. This is further pronounced in the municipal infrastructure subsector, where undrawn commitments are at 98 per cent, while in energy operations the ratio is 73 per cent (Figure 20).

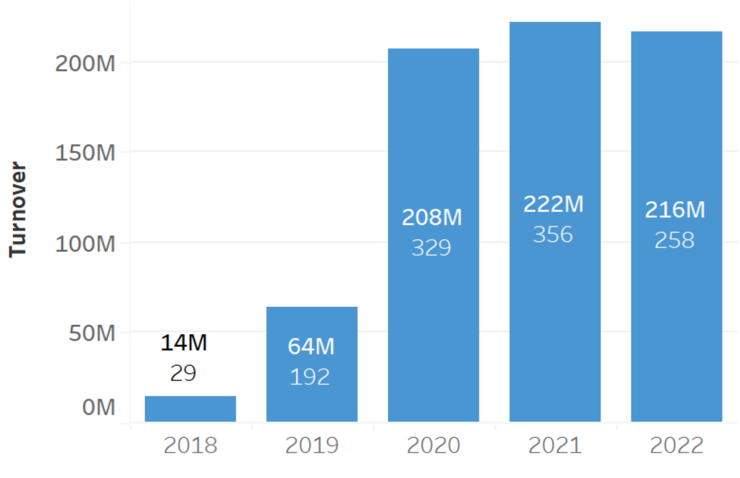
TFP operations with six partner banks have stabilised at over €200 million yearly turnover. TFP operations commenced in 2018 with three PFIs, and a total of €14 million turnover. The number of active TFP PFIs increased from 2019 onwards to six. In 2020 the total turnover on TFPs exceeded €200 million and stayed relatively stable at that level through the remaining years. (Figure 21) The largest sector of TFP transactions was industrial equipment and materials (29 per cent of volume), followed by foods and food commodities (15 per cent) and vehicles and spares (14 per cent).

Figure 20: NCBI, Cumulative disbursements and Undrawn commitment ratio, by sector



Note: FI NCBI and Disbursement figures exclude TFP operations

Figure 21: TFP turnover and number of transactions



Source: TFP team

Slow disbursements especially in the SI sector meant that operating assets (OA) represent relatively low share of portfolio (30 per cent). The portfolio in Uzbekistan grew rapidly over the 2017-22 period, to reach €2.3 billion at the end of 2022 (Figure 22). However, OA on portfolio only reached 30 per cent in 2022. The driver for this was mainly the SI sector, where OA on portfolio only picked up in 2021 to 11 per cent and reached only 20 per cent in 2022 (Figure 23).

Figure 22: Portfolio and share of operating assets on portfolio, 2017-22

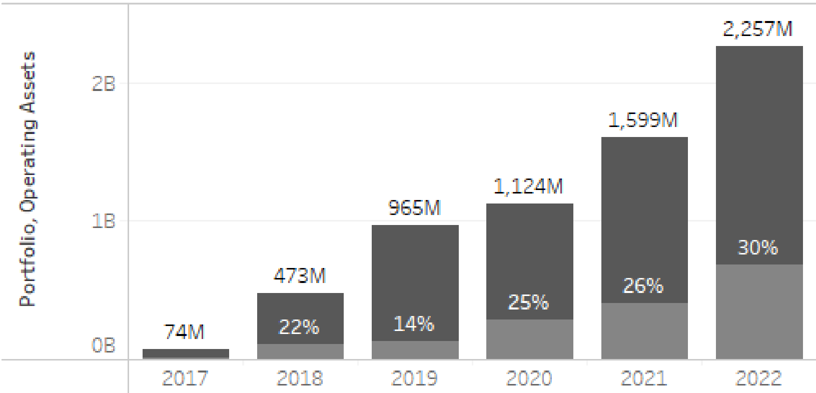
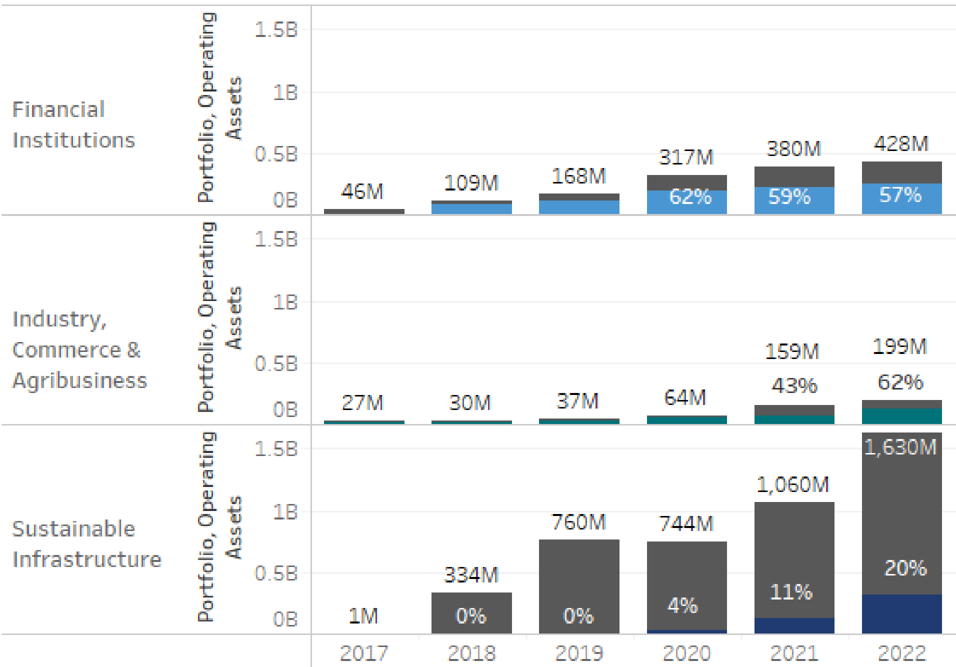


Figure 23: Portfolio and share of operating assets on portfolio, by sector, 2017-22



Portfolio class

The majority of ABI in Uzbekistan was in the private portfolio class (60 per cent) but the composition of portfolio class varied by sector. The total ABI in the private portfolio class was €1.7 billion over the 2017-22 period, which represented just over 60 per cent of total ABI. The distribution of the portfolio class was to a large extent determined by the sector of implementation. While ICA operations were fully in the private sector and FI operations predominantly so, municipal infrastructure operations were all in the state sovereign guaranteed class. In the case of Energy, operations were split almost evenly between the private portfolio (€588 million of Energy ABI), and state sovereign guaranteed (€498 million of Energy ABI) (Figure 24). The proportion of the private portfolio class was rising steadily over the period, reaching majority of ABI in 2020 (66 per cent) and representing over 80 per cent of ABI in 2021 and 2022 (Figure 25).

Figure 24: Portfolio class of operations, by sector

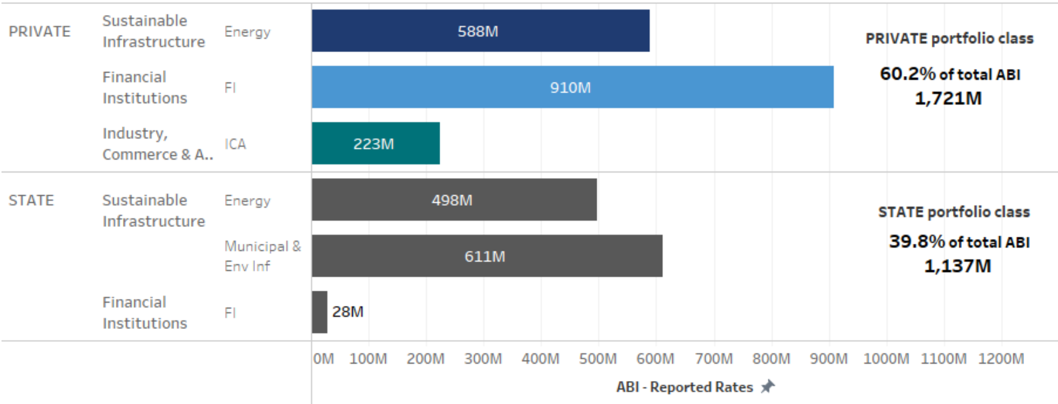
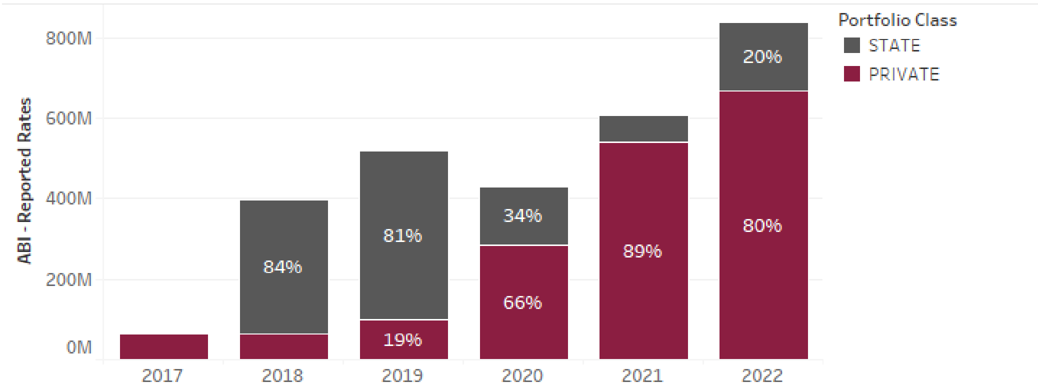


Figure 25: Portfolio class as a share of ABI, 2017-22



Annual Mobilised Investment

The total approved Annual Mobilised Investment (AMI) on operations in Uzbekistan was €581 million but the majority of this was related to one operation in Energy. The total AMI was contributed by 15 operations, 5 in each sector (Energy, FI and ICA). However, the volume of AMI was concentrated in Energy, with a single operation registering over 70 per cent of all AMI in Uzbekistan over the period: *51963 Syrdarya Power Project*, with a total of €415 million AMI, the majority of which (€407 million) was delivered through parallel loans[23] (Figure 26, Table 6).

[23] Bank Of China €242 million, Natixis London €55m, Société Générale €55 million, Standard Chartered Bank €55 million.

Figure 26: AMI by sector, 2017-22

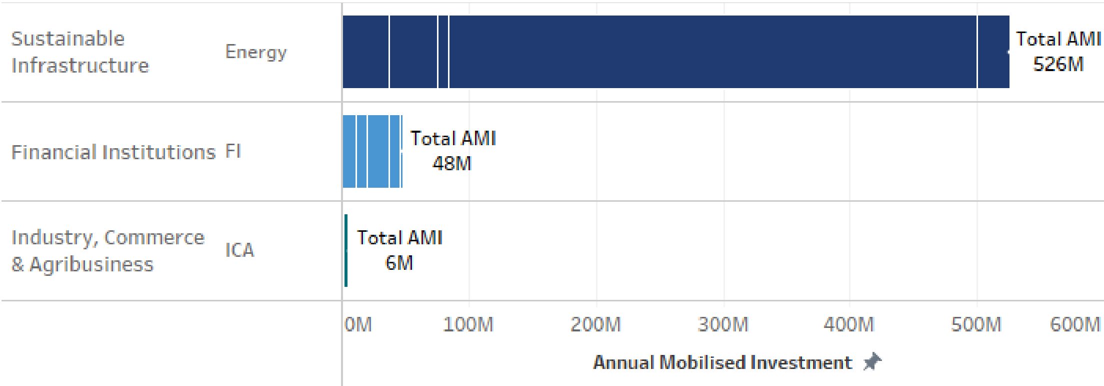


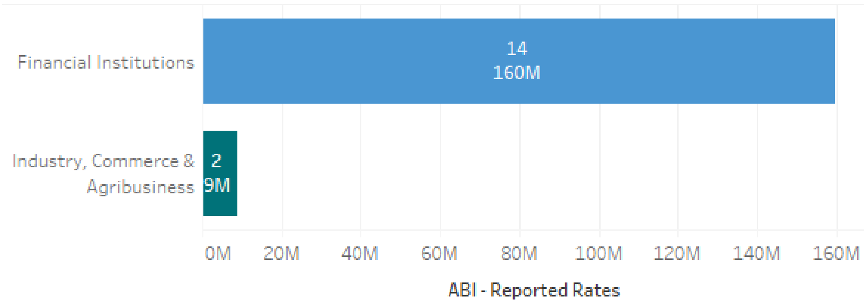
Table 6: AMI sources by sector

Sector	Number of projects with AMI	Syndications (€)	URPs (€)	Non-EBRD Finance (€)	TOTAL AMI
Energy	5	9.4 M	110.3 M	406.5 M	**526.1 M**
FI	5	11.5 M	36.9 M	-	**48.4 M**
ICA	5	-	-	6.5 M	**6.5 M**

Local currency financing

Financing in local currency represented less than 6 per cent of total ABI (€169 million). This was mostly concentrated in the FI sector, where €160 million in local currency ABI was created over 14 operations (Figure 27).

Figure 27: Local currency financing ABI



Transition Qualities

Green TQ was the most represented primary TQ in ABI terms (37 per cent) but this did not translate into implementation, where projects with primary TQ Green have only seen 5 per cent cumulative disbursements so far. Green primary TQ projects delivered €1.1 billion in total ABI, predominantly originating from 16 SI projects, both in EMI. The second most targeted primary TQ was Competitive, with €871 million in ABI in SI operations (5 projects, €328 million), ICA (24 projects, €165 million) and FI (15 projects, €378 million) (Figure 28). The strong delivery on primary TQ Green in ABI terms has not been translated into implementation –cumulative disbursements on these operations were at only 5 per cent of NCBI by the end of 2022, however, or €44 million. This contrasts with the primary TQ Competitive, where cumulative disbursements on NCBI stood at 74 per cent or €569 million (Figure 29).

Figure 28: ABI by primary TQ of operations and by sectors, 2017-22

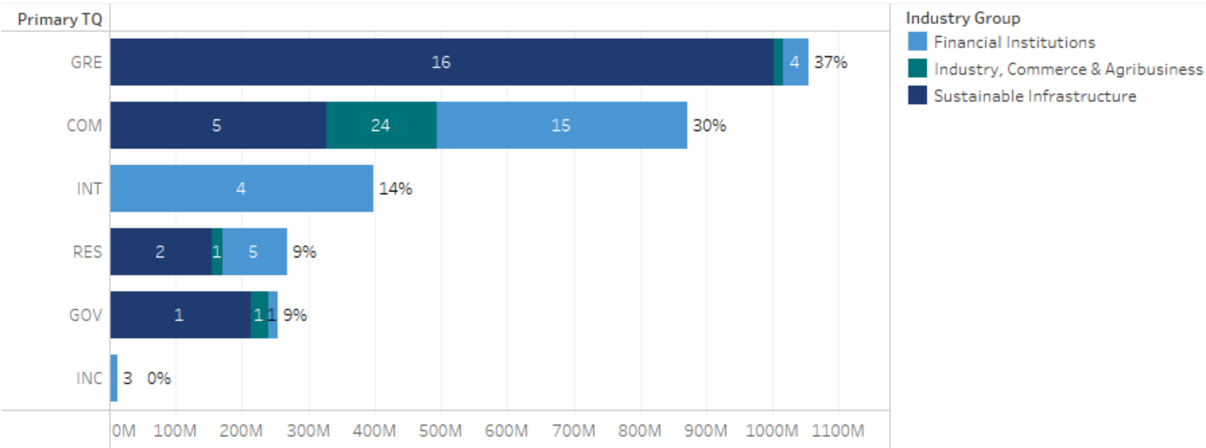
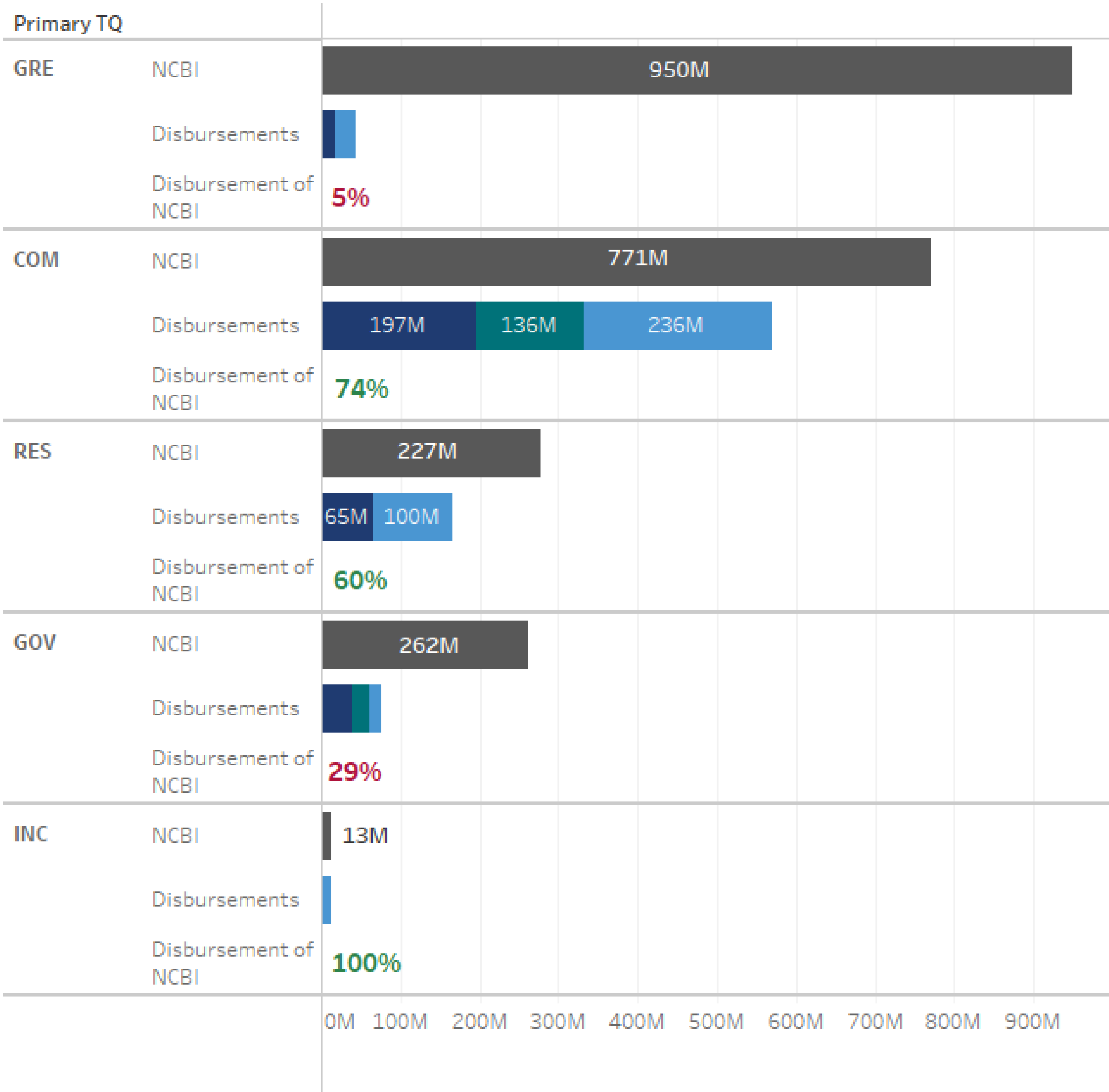


Figure 29: NCBI and disbursements by primary TQ of operations, 2017-22



Note: TFP operations not included

GET financing

GET finance, originating primarily from SI operations, amounted to €1.6 billion ABI over the period but lack of disbursements in the sector meant that GET operating assets remained relatively low. The overall GET ratio for the 2017-22 period was 56 per cent but this varied across individual years. In 2022 GET finance ratio reached 67 per cent or €563 million (Figure 30). The total amount of GET finance was €1.6 billion, which was delivered primarily by SI operations (€1.4 billion of GET ABI, 81 per cent GET ratio). (Figure 31) However, GET operating assets remained relatively very low over the whole period, owing primarily to cancellations and lack of disbursements of SI operations. GET operating assets reached a maximum of only €149 million in 2022 (Figure 32).

Figure 30: GET ratio by year, 2017-22

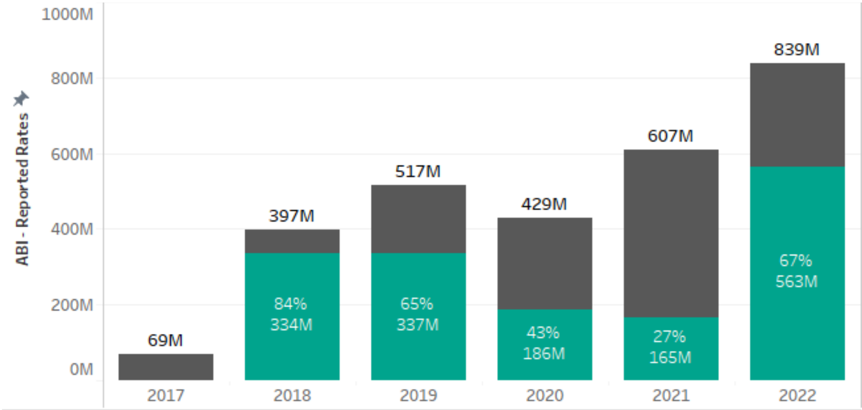


Figure 31: GET ratio by sector, 2017-22

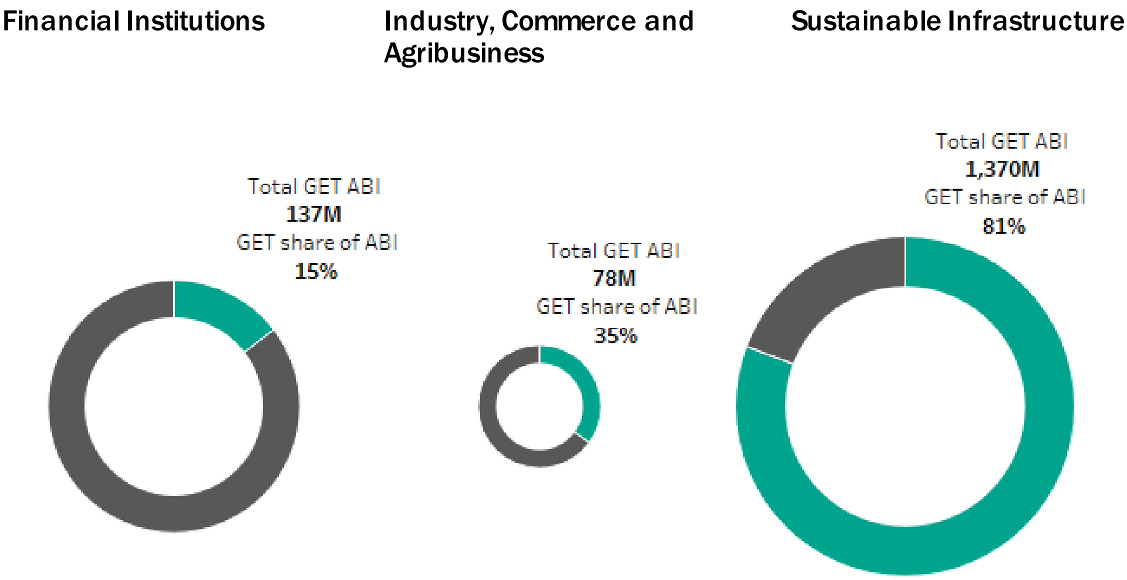
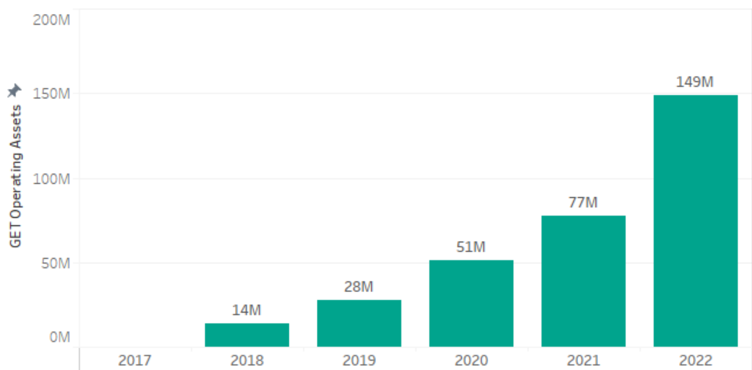


Figure 32: GET operating assets, 2017- 22



Annex 3. Supporting change in the financial sector

Since 2017, the EBRD has provided support to private sector banks and SOBs earmarked for privatisation. In most cases, this has comprised products through pre-established frameworks – primarily TFP, FIF, WiB, GEFF, and the RF – with bespoke TC on a range of areas including corporate governance, risk management, SME lending, and trade facilitation.

Despite the extensive involvement of other DFIs, particularly the IFC, the ADB, and FMO, there is evidence of EBRD's value-addition to the sector. There are clear signs that at the institutional-level, EBRD's support has led to organisational and behavioural changes in PFIs, and emerging evidence of systemic changes with greater private sector participation and more financing directed towards SMEs. This is an ongoing process; whilst there is a growing private sector, an increased focus on SME and green financing, and improving sector-wide corporate governance standards, from a macro-perspective the sector is still dominated by SOBs providing partially policy directed lending.

a. The background – what is the EBRD trying to achieve in a state-dominated sector?

154. **Uzbekistan's financial sector is dominated by SOBs, which as of end-2021 comprised 86 per cent of the sector.** The five major SOBs (National Bank, Asaka Bank, Uzpromstroybank (UzPSB; renamed Sanoat Qurilish Bank), Ipoteka Bank, and Agro Bank) hold 64 per cent of assets[24]. Historically, SOBs employed a policy-directed lending approach, with financing for SOEs in government priority sectors. Today, although the government is making progress on shifting policy-directed lending for SOEs from SOBs to the FRD, SOBs still retain a legacy portfolio of assets with SOEs, and in some cases an ongoing mandate to continue to provide SOE financing. Directed lending at concessional rates to SOEs has undermined the balance sheet of SOBs and affected their profitability.

155. **The government of Uzbekistan has earmarked some SOBs for privatisation.** Of the large SOBs, Asaka Bank, Sanoat Qurilish, and Aloqabank are all in line to be privatised, whilst OTP Bank (Hungary) acquired a majority stake in Ipoteka Bank under an agreement signed in December 2022. In addition, since 2017, two international banks, TBC Bank Georgia and Halyk Bank JSC of Kazakhstan, have started subsidiaries within the Uzbekistan market.

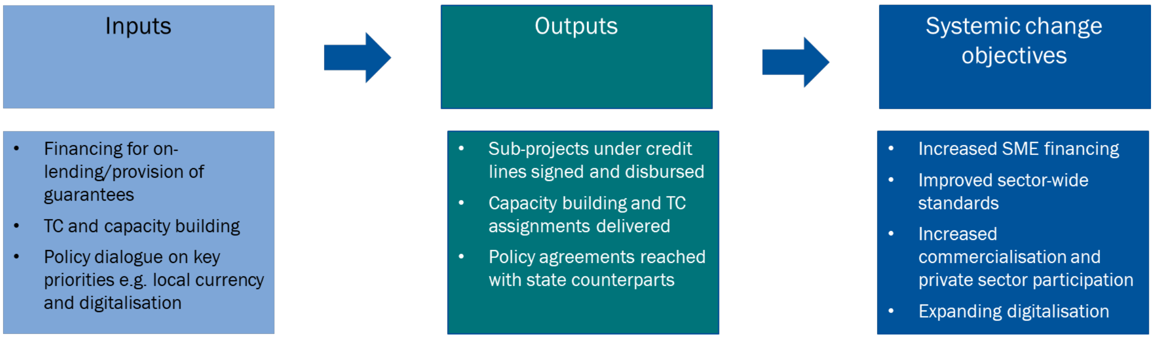
156. **With the focus on directed lending towards SOEs, the SME and retail segments have historically accounted for smaller shares of the Uzbekistan banking market.** At YE 2017, SMEs accounted for 53 per cent of GDP but only 15 per cent of Banking assets, whilst as late as 2021 retail deposits as a proportion of GDP stood at 10 per cent, the second lowest share in Europe and Central Asia[25,26].

157. **Against this background, EvD has reconstructed a ToC for EBRD's interventions in the Financial Sector, using strategic and project documents, interviews with clients, and engagement with Banking colleagues.** This uses the basic template set out in Figure 33, adapted for the financial sector, as well as the three-step framework for understanding the

[24] CBU data
[25] Ipak Yuli BM
[26] https://blogs.worldbank.org/psd/livestock-lifelong-savings-improving-financial-inclusion-uzbekistan

Bank's contribution towards systemic change. The next sections provide an analysis of data collected against this framework.

Figure 33: A Theory of Change for the Financial Sector



b. EBRD's work in the financial sector

Providing support to the financial sector through financing and TC

158. **Over 2017-22, the EBRD signed 24 separate transactions with 10 PFIs in Uzbekistan, providing a total of €404 million of NCBI (not including TFP).** These were predominately signed under the FIF, GEFF, WiB, and RF with two stand-alone transactions; providing a convertible loan to UzPSB to support privatisation, and an equity investment into TBC Bank to support their entry into the Uzbekistan market. In addition, the Bank agreed TFP lines with six FIs covering this period (Table 8).

Table 7: Summary of EBRD financing in the FI sector

Id	TFP	FIF - MSME	RF	FIF - WiB	GEFF	Other	Total NCBI by client
UzPSB (Sanoat Qurilish)	282.4 M	37.5 M	22.0 M		23.1 M	46.8 M	411.8 M
Asaka bank	216.6 M	-	18.7 M	-	-	-	235.4 M
Ipoteka	84.3 M	69.5 M		9.4 M			163.2 M
NBU	71.3 M	65.6 M	-	-	-	-	136.9 M
Hamkorbank	28.9 M	43.6 M	-	-	9.4 M	-	81.8 M
Ipak Yuli	41.9 M	8.1 M	9.4 M	1.9 M	7.1 M	-	68.4 M
Davr Bank	-	11.1 M	2.8 M	1.9 M	-	-	15.8 M
TBC Bank	-	-	-	-	-	15.2 M	15.2 M
Uzbek Leasing Intl	-	3.3 M	-	-	-	-	3.3 M
Universal Bank	-	0.9 M	-	-	-	-	0.9 M

159. **Of the FIs supported by EBRD, six were private and four were SOBs.** With the exception of NBU, the largest bank in Uzbekistan, the Bank's approach was to focus on SOBs earmarked for privatisation. The relationship with NBU was established as a way of demonstrating EBRD's

commitment upon its initial entry into the sector. Although not a strict rule, the approach the Bank took was to start with SME and TFP financing lines before expanding the TFP and SME envelopes and offering other products such as GEFF and WiB.

160. **Across all the PFIs the EBRD provided a range of TC and capacity building services.** This included capacity building as part of the TFP, GEFF, and WiB frameworks as well as bespoke support in a range of areas covering corporate governance, climate risk, and SME lending.

161. **The EBRD has also engaged in policy dialogue and TC with state counterparts.** Significant examples include ongoing work on developing a local money market, and a TC with the CBU on developing a Remote Identification System (RIS) to enable support online banking.

Additionality in the financial sector – crowded but with a clear role for the EBRD to play

162. **The financial sector in Uzbekistan has attracted interest from a range of DFIs.** The IFC, ADB, FMO, Proparco and impact investors have all provided financing to the sector and in some cases have also provided capacity building. Given the sector size, this has inevitably meant substantial overlap between DFIs in their client base. In some cases, EBRD clients had established pre-existing relationships with other DFIs at the point of EBRD's entry into Uzbekistan.

"It was a revelation that IFIs can provide direct financing in local currency." EBRD client

163. **Despite this crowded sector, there is significant evidence of the EBRD providing additional value compared to the support of other DFIs.** Several clients noted that prior to EBRD's engagement, credit lines from other DFIs were issued via the Ministry of Finance with a sovereign guarantee and that the EBRD facility marked their first direct engagement. For some clients, EBRD's transaction marked the first local currency transaction they had received from a DFI. During interviews, other DFIs recognised the EBRD's bold approach in engaging with PFIs in Uzbekistan, which helped demonstrate what was possible in the sector.

164. The diversity and range of products available from the EBRD provided another mechanism through which the EBRD was able to provide value in a crowded DFI space. In addition to more standardised SME credit and trade finance facilities, EBRD's product suite of green finance, risk-sharing and WiB lines have expanded the options available to PFIs.

165. **More broadly, the FI sector in Uzbekistan has limited other funding resources either from commercial banks or from deposits.** Retail deposits stood at 10 per cent of GDP in 2021, the second lowest share in Europe and Central Asia, providing a limited platform for PFIs to deploy capital[27]. Furthermore, there is little funding available on the commercial market to banks in Uzbekistan. Of the four private PFIs supported by the EBRD, only one had any type of funding line from a commercial provider, with funding sources dominated by DFIs or government entities.

166. **Clients also recognised the support of the EBRD during the COVID-19 pandemic, with the provision of liquidity support via the SP.** The perception of clients was that the EBRD was a responsive partner in offering support when other DFIs were restricting lending.

[27] https://blogs.worldbank.org/psd/livestock-lifelong-savings-improving-financial-inclusion-uzbekistan

167. **A strong relationship with clients in-country has underpinned these transactions.** Clients emphasised the ease and flexibility of engagement with the EBRD. The overriding impression was that the EBRD is perceived as a more active and efficient partner than other DFIs, even when clients have other DFIs as their shareholders or other significant formal relationships in place.

168. **In addition to financing, the EBRD has played a clear role in providing capacity building and technical assistance.** The Bank has provided support as part of TC attached to frameworks such as GEFF, TFP, FIF, and WiB, as well as more bespoke TC provision. In particular, EBRD's role in supporting privatisation processes at Asaka, Ipoteka, and UzPSB have been carefully coordinated with the IFC to avoid duplication. Clients also highlighted the specialist support provided by the EBRD in areas of climate corporate governance and treasury.

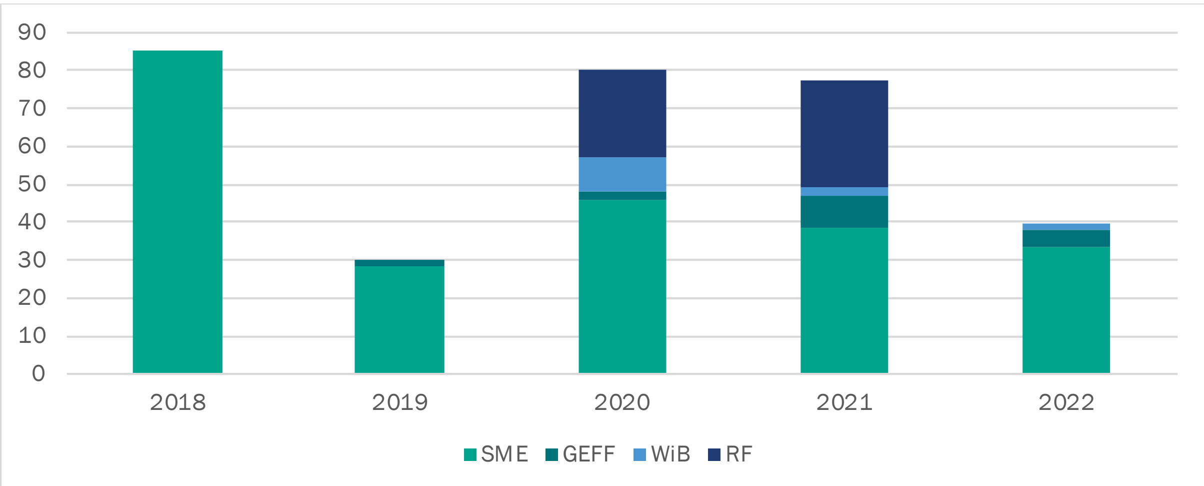
169. **Asaka Bank noted the EBRD is currently the only foreign entity with a custodian account at a local bank.** This transaction, conducted by EBRD's Treasury Department as a pilot, enables the EBRD to hold government securities via a local bank, and in doing so to both test the regulatory environment and local capital market infrastructure and to serve as a demonstration effect to other international investors.

Implementation

170. **There is substantial evidence that facilities on offer from EBRD were taken up and employed by clients.** All the FIF, GEFF, and WiB were disbursed in full, with no cancellations nor undrawn commitments. Within individual PFIs, the envelopes for credit lines and trade facilities have been rapidly expanded as clients have deployed the funds available. The first set of WiB projects demonstrates how quickly funds were deployed. Ipak Yuli, for example, received financing under WiB in December 2022 and had fully utilised the first tranche by April 2023.

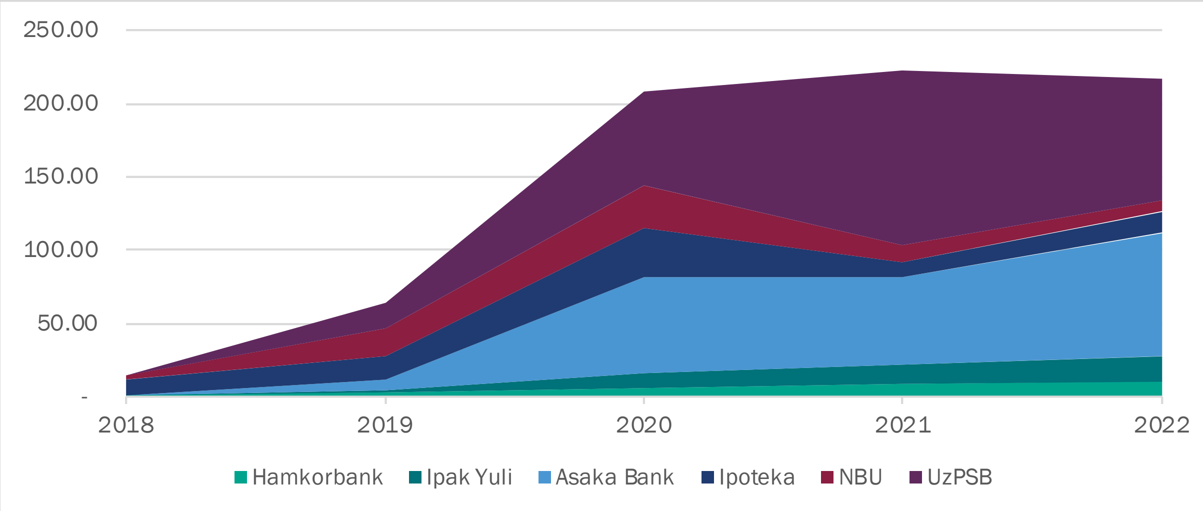
171. **However, whilst envelopes at individual PFIs increased, the picture with respect to total disbursements was more mixed.** This partially reflects an initial large SME credit line with NBU, which has not been repeated, unlike other initial transactions. The addition of temporary liquidity lines during the COVID-19 pandemic further complicates the picture (Figure 34).

Figure 34: Annual disbursements to PFIs under FIF/GEFF/WiB/RF frameworks



172. **Trade financing demonstrated significant growth in 2018-20 before plateauing.** Clients cited the impact of the pandemic as well as the Russian war on Ukraine as primary causes. Declining volumes with the NBU, a major SOB that was not scheduled for privatisation, also offset increases in some private banks and SOBs scheduled for privatisation (Figure 35).

Figure 35: Comparing trade financing via TFP with PFIs



173. **Where there is underlying data, evidence suggests that financing has been used as directed and in line with framework targets.** The FIF, GEFF, and WiB frameworks have standardised benchmarks to assess performance, most of them have been fully or mostly achieved for projects in Uzbekistan. This demonstrates that at project-output level, individual targets related to the utilisation of loans were largely achieved.

174. **Given successful implementation, EBRD facilities used by PFIs have been repaid as planned.** None of the projects have had repayment issues. Given the short tenors of these facilities, in most cases the projects are either complete or nearly fully repaid.

175. **The provision of technical assistance and capacity building has led to some changes in how clients operate.** Areas of support covered by the EBRD include:

- SME lending: the EBRD provided TC on SME lending and underwriting.
- Risk management: specific components included due diligence and KYC support for Davr Bank, whilst Ipak Yuli introduced its first risk appetite statement and set up an operational risk department after the EBRD TC project.
- Trade finance: PFIs received capacity building on trade financing, including access to online training platforms as well as individual consultants embedded within clients.
- Climate corporate governance: through TC financed by FIDF, the EBRD has been supporting climate corporate governance in PFIs.
- Treasury management: PFIs have taken part in a working group coordinated by the EBRD with the CBU, with a focus on developing a local money market.
- Gender: TC supported through the WiB framework has funded gender training for PFIs.

176. **PFI clients interviewed were positive about the contribution of EBRD's TC support.** Their perspective was that TC assignments were well targeted, addressed areas of need, and delivered by high-quality experts who provided value.

177. **The EBRD has been supporting the privatisation process through a mixture of financing and TC.** The EBRD has been leading on the pre-privatisation transformation capacity building at Asaka Bank with an initial diagnostic completed and a subsequent larger TC assignment due to start. The engagement with Asaka Bank also envisages an equity investment in the near future. For UzPSB, where the IFC is leading on the transformation process, the EBRD provided a convertible loan as part of the transition to privatisation.

178. **However, there has been limited progress with Aloqa Bank, one of two FIs (along with Asaka) assigned to the EBRD to support the privatisation process.** There are currently no open projects with Aloqa and limited discussions on TC. Stakeholders explained that the ownership structure of Aloqa was complicating EBRD's support, along with other legacy issues.

179. **There is also good evidence of the implementation of the RIS.** Six months after project launch, according to monitoring data, the project had signed up six banks and over 200,000 users. Numbers have continued to grow; according to the CBU, there are currently 23 commercial banks and 2.6 million users nationwide (Box 7).

"The remote biometric identification system that was introduced to make digital banking more convenient is becoming more and more popular...the number of clients has reached 2.6 million."
CBU Annual Report, 2022

Box 7: Supporting digital disruption in Uzbekistan – the case of TBC Uzbekistan
In addition to providing support to already established PFIs in Uzbekistan, the EBRD has also supported a new market player: the TBC Bank of Georgia, a pre-existing client, opened a subsidiary in Uzbekistan in October 2020, with the EBRD providing an equity investment to support start-up operations of the new subsidiary in September 2021. Besides being a new private sector entrant into the Uzbekistan banking sector, TBC Bank has also introduced new digital banking processes into the Uzbekistan market, spurring additional competition from pre-established banks on developing their digital services for customers.

180. **There is ongoing activity under EBRD's support to the CBU to develop local money markets.** This has included direct TC support to the CBU, as well as the creation of a working group consisting of the CBU and banks on discussing money market issues. The EBRD is due to host the next convening of the working group in London HQ in Q4 2023.

c. Behavioural change and market change

181. **There is emerging evidence that EBRD's interventions are leading to systemic changes.** Despite the short timeframe, there are signs of behavioural and organisational changes in the PFIs with which the EBRD works, and wider systemic outcomes as a result. Key changes include:

- An increased focus on providing financing to EBRD target segments (green financing, SMEs, imports/exports, and women-led businesses)
- Improved corporate governance and progress towards privatisation

- Increasing digitalisation of financial services

182. **There are a number of factors that explain this transformation.** With respect to an increased focus on SMEs, for example, the government of Uzbekistan has emphasised support to SMEs and entrepreneurs, creating political momentum, particularly for SOBs, to expand SME lending. Other DFIs have offered credit lines for SMEs whilst PFIs also face a financial incentive to steer business away from SOEs to more lucrative SME lending. The government and other DFIs have also been pushing on privatisation as well as supporting digitalisation.

183. **However, there is plausible data that suggest that EBRD's contribution to this process was not insignificant.** Evidence from interviews, from client documentation, and from financial data provides concrete examples of how EBRD's support has contributed towards the transformation at the client level with emerging evidence of change at the systemic level.

184. **Whilst there has been systemic change, EvD would also highlight that this is an ongoing process.** The FI sector is still largely state dominated, with legacy challenges that will continue to require support. Furthermore, the changes that have occurred within the sector will not immediately translate into wider spill-over effects for the rest of the economy.

Expanding financing in line with EBRD's priorities

185. **This narrative of systemic change is clearest with respect to expanding financing in line with EBRD's priorities.** There are examples of PFIs scaling up financing with credible links with EBRD's support.

186. **SME financing provides the most evident demonstration of this process.** Historically, SMEs were under-represented in Uzbekistan, accounting for 15 per cent of loans despite contributing 53 per cent of GDP. However, over the past five years, there has been a clear behavioural and organisational shift in how PFIs view SMEs and some data on how this has affected levels of financing.

187. **There is concrete evidence of how the EBRD has contributed to organisational changes to SME lending in PFIs.** Examples of changes in PFIs directly supported by the EBRD in their approach to SME financing include the following:

- The introduction of underwriting standards for SME loans at Ipak Yuli. EBRD's due diligence process had identified weaknesses in underwriting standards for SMEs, with limited use of FX stress-testing and cash-flow projections. The EBRD "introduced the concept of SME underwriting" to the Bank, implementation of which became part of Ipak Yuli's 2022 Business Strategy.
- Supporting the creation of a SME business unit of UzPSB by providing training for employees on engaging SMEs and on the SME customer acquisition process.
- Introducing an SME lending technology and process at NBU and supporting the development of the newly established SME department.

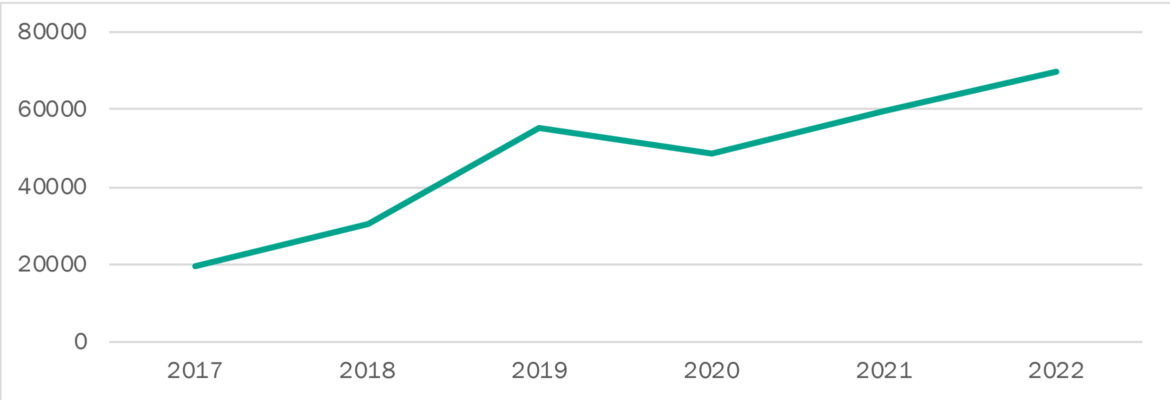
188. **Accompanying these organisational changes, lending to SMEs increased significantly across the six PFIs where the EBRD provided support and where data are available.** In some cases, the growth of the SME portfolio has vastly exceeded the EBRD's financing (e.g., NBU and Ipak Yuli). However, the documented evidence of EBRD's provision of technical support provides confidence that the EBRD still contributed to this process (Table 9).

Table 8: Comparing SME portfolios in PFIs

Id	MSME portfolio at baseline	MSME portfolio as of most recent data
NBU	US$ 336 million (as of Q1 2017)	US$ 1.7 billion (as of Q1 2021)
UzPSB (Sanoat Qurilish)	US$ 1.3 billion (as of Q1 2020)	US$ 1.65 billion (as of YE 2021)
Ipoteka	US$ 248 mn (as of Q2 2017)	US$ 788 million (as of Q1 2022)
Hamkorbank	US$ 168mn (as of August 2017)	
Ipak Yuli	US$ 187mn (as of August 2018)	US$ 451 million (as of Q2 2022)
Davr Bank	US$ 32mn (as of YE 2017)	US$ 84 million (as of May 2022)

189. **Data provided by the National Bank of Uzbekistan provides evidence for wider systemic change.** By its definition of "loans extended to individuals and small businesses for entrepreneurial purposes", financing has increased significantly over the period covered under this assignment. Whilst this picture is complicated by various factors – not least the ongoing Uzbek Som depreciation, the support of other DFIs and the government SME financing "Every Family is an Entrepreneur" Programme, it is plausible to conclude that there has been systemic change with respect to SME financing and that the EBRD has contributed to it (Figure 36).

Figure 36: SME lending in Uzbekistan (Uzbek Bn Som)



Source: CBU Data

"We were doing trade finance before, but it was not well understood. It has been a big step forward since the EBRD engagement began - more and more clients are trying to solve problems with trade finance h
EBRD client

190. **There are some data points that suggest an increased openness to providing trade financing.** Use of trade financing facilities has risen significantly. During interviews, clients suggested that through EBRD's support they had developed a better understanding of trade financing, and were able to offer more sophisticated and longer tenor products. Even PFIs that had a comparatively large pre-existing trade finance business, such as Asaka Bank, acknowledged the positive contributions from EBRD's support.

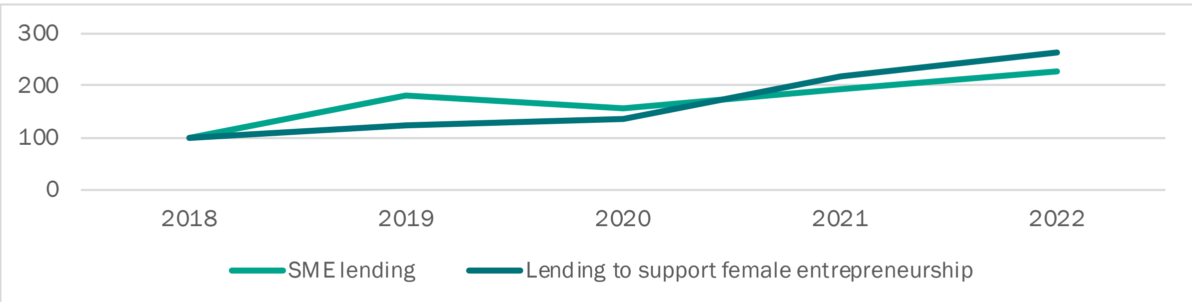
191. **However, there is limited data available to draw conclusive judgments on how the wider trade finance market has developed.** There is no data available on total market size, and limited information on how trade finance portfolios among EBRD's clients have changed. This makes it challenging to understand the direction of wider trends and to contextualise EBRD's contribution.

192. **Similarly, evidence is limited on changes to gree -based financing.** This is partially due to an absence of data. Prior to engagement with the EBRD, PFIs did not track the share of green loans at a client level let alone on a system-level, which creates baseline challenges.

"Female entrepreneurs make good clients – they are responsible and pay back."
EBRD client

193. **However, there are some signs of change with financing directed towards women-led businesses.** For the three PFIs where the EBRD has introduced WiB facilities, this has led to organisational changes including new data collection processes to start tracking data on financing for women-led SMEs, and the launch of products specifically targeted at this client segment. Encouragingly, the attitude of clients interviewed by EvD on this topic was also very positive, with a broad consensus that initial pilots exploring financing for women-led businesses had been successful, and they wanted to scale up this financing further going forward. Data from the CBU, which tracks "loans to individuals and small enterprises supporting women's entrepreneurship" suggests that loans have increased significantly, and that loans to support women's entrepreneurship have outpaced the wider growth in SME lending. Furthermore, loans to female entrepreneurs demonstrated the fastest growth from 2020-22, which coincides with the EBRD's introduction of WiB facilities. Without more granular data, it is impossible to establish direct causality, but it provides confidence that the EBRD has contributed to this picture (Figure 37).

Figure 37: Comparing growth rates of SME lending and female entrepreneurship lending



Source: CBU Data

Improved corporate governance and progress towards privatisation

194. **In addition to targeted lending, the EBRD has been supporting corporate governance with PFIs.** Whilst difficult to quantify, there are some concrete examples of how corporate governance in individual clients has improved, and some signs of how this has spread to the wider sector. This includes EBRD's support to privatisation, which is gradually moving forwards in three cases.

195. **Examples of corporate governance improvements supported by the EBRD include:**

- Launch of a climate corporate governance policy at Ipak Yuli Bank
- Development of ESG policy based on EBRD standards at Ipoteka Bank
- Introduction of independent board members on the supervisory board at Asaka Bank
- Setting up a climate risk unit at UzPSB

196. **Interviewees suggested that corporate governance improvements in EBRD clients were driving regulatory changes.** Clients noted that after engagement with the EBRD in areas such as climate corporate governance and operational risk, the regulator had opened discussions on new regulatory requirements in these areas. Although still an ongoing process, this demonstrates how improvements in standards can become embedded in regulation for wider systemic change.

197. **There has also been some progress on privatisation for clients where the EBRD is providing active support.** In December 2022 the Hungarian Banking group OTP (also an EBRD client) announced a deal to take a majority stake in Ipoteka. The OTP group discussed the acquisition with the EBRD and its support provided reassurance.

198. **Whilst neither of the other two PFIs where EBRD is supporting privatisation has been privatised, there is evidence that EBRD's support on transformation is having an effect.** Interviewees at Asaka Bank noted that although there were still significant gaps, internal capacity related to risk management, portfolio review, and corporate governance had improved substantially. The client's commitment to the transformation process is also demonstrated by the public plan it released on transformation describing the extensive TC support provided by the EBRD and the role that the Bank is playing in supporting the privatisation process[28]. Similarly, investor presentations and annual reports published by UzPSB demonstrate the institution's commitment to privatisation and the role played by the EBRD in partnership with other IFIs[29,30].

199. **However, this is a challenging ongoing process.** SOBs interviewed by EvD emphasised the continuing importance of policy-based lending and the difficulty in managing a legacy portfolio. Lending to SOEs continues to absorb surplus capital and liquidity despite the recognition that a pivot towards SME and retail lending is a critical part of the transformation process. Wider corporate governance is also still an issue. The Uzbekistan Country Diagnostics identified examples of cases where independent directors on SOBs supervisory boards had limited effect, with politically appointed management continuing to exercise control.

200. **The support provided to the CBU on developing a local money market has changed how PFIs operate and manage their liquidity.** The volume of unsecured interbank transactions

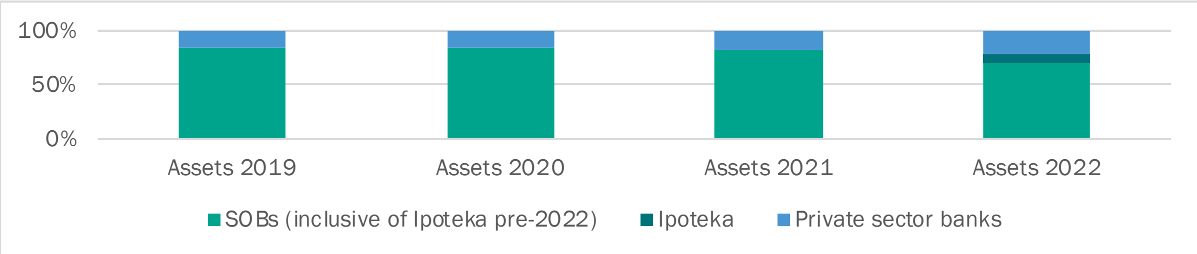
[28] https://back.asakabank.uz/media/files/%D0%90%D1%81%D0%B0%D0%BA%D0%B0_%D0%B1%D0%B0%D0%BD%D0%BA_%D0%B8%D0%BD%D1%84%D0%BE_%D1%84%D0%BE%D1%80%D0%BC%D0%B0_%D0%A6%D0%91_%D1%8E%D1%80%D0%B8%D1%81%D1%82.pdf
[29] https://www.sqb.uz/upload/files/SQB_1HY2022.pdf
[30] SQB Annual Report 2020

tripled between 2021-23, whilst clients also informed EvD that the growth of the market had them considering treasury functions as a profit centre rather than back-office operations.

Increasing private sector participation

201. **Through directed lending towards private sector banks and supporting privatisation at SOBs, the EBRD has contributed to increasing private sector participation in the financial sector.** The share of private-sector participation in the financial sector increased from 15.6 per cent in 2019 to 21.8 per cent in 2022 (as a share of total assets). The privatisation of Ipoteka, which was confirmed in December 2022, means an additional 7.9 per cent of the sector under private operation (Figure 38).

Figure 38: Share of Banking assets by year



Source: CBU Data

202. **Whilst the EBRD has contributed to this picture, there is no strong evidence that it has been the driver of change.** The growth in the share of private sector banks was driven by FIs that were not EBRD clients. Looking at the sector as a whole private sector clients of the Bank increased their share of assets from 7.35 per cent in 2020 to 8.33 per cent in 2022. In comparison, private sector FIs which are not clients increased their share of assets from 8.3 per cent to 13.5 per cent, implying that private sector banks which are not clients of the EBRD recorded more impressive growth during that period. Most of this difference was the result of one FI with which the EBRD cannot work for integrity reasons.

Expanding digitalisation of financial services

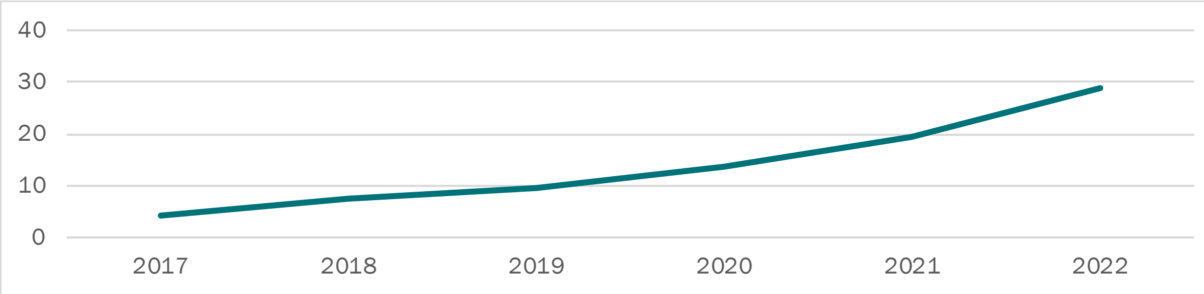
203. **There has been a significant digitalisation of financial services in Uzbekistan.** Examples include the launch of mobile apps by several banks, the entry of the first “digital-first” bank into the market (TBC Bank) and increasing back-end digitalisation of banking services.

204. **There is some evidence that the EBRD has played a small role in this process.** Although not the sole factor, the Bank’s equity investment into TBC Bank has enabled it to scale up its digital-led model more rapidly, and after a year of operation TBC Bank has acquired over two million customers. TBC Bank has also initiated several discussions with the CBU on developing a regulatory framework for digital banking for which interviewees explained that having the EBRD as a strong shareholder was critical in regulatory discussions.

205. **The creation of a RIS supported by the EBRD has helped provide the infrastructure necessary for expanding digitalisation of financial services.** The number of individuals using remote banking systems rose from 4.2 million in 2017 to 28.8 million in 2022. Clearly, not all of

this change can be attributed to the RIS. The use of remote banking services was climbing rapidly prior to the introduction of the RIS, whilst the COVID-19 pandemic provided momentum for increasing digitalisation. The increase in the number of remote banking users over 2021 and 2022 also significantly exceeds the 2.6 million RIS users registered at the end of 2022. However, given the large number of users and the range of banks utilising the RIS platform, there is good evidence that it helped contribute to this wider systemic shift towards digital banking services (Figure 39).

Figure 39: Number of remote banking users, in millions



Source: CBU Data

Annex 4. Difficult implementation in municipal infrastructure

Municipal infrastructure projects represented the first large-scale investments in Uzbekistan after the Bank's re-engagement, with five sovereign municipal infrastructure projects in district heating and water sectors in 2018. While the two district heating projects were later cancelled in full, the Bank remained active in the water and wastewater sector, with a total of seven projects signed. This orientation responded both to high investment needs in the sector, characterised by deteriorating infrastructure, and to the government's priorities. In 2022, the Bank signed two further investments in the solid waste management sector.

While the high relevance of municipal infrastructure projects is not in doubt, implementation has been slower than projected and no project had started physical implementation by end-2022. The main reasons behind this have been local institutional changes and low implementation capacity, leading to a protracted design period, changes in scope and delays in procurement.

a. The background – a relevant sector with investment needs

206. **Uzbekistan faces high water scarcity and vulnerability to the effects of climate change.** Uzbekistan is a double landlocked semi-arid country. It ranks 7th in water stress level (freshwater withdrawal as a proportion of available freshwater resources) and has 8th lowest water productivity (GDP per cubic meter of total freshwater withdrawal) of all countries tracked (WB, 2020). The agricultural sector consumes 90 per cent of the country's water, with cotton being a water intensive crop irrigated by inefficient systems. Increased temperatures and more rapid melting of glaciers elsewhere in the region may lead to severe water shortages along Uzbekistan's most important rivers, the Amu Darya and Syr Darya, by the 2040s and 2050s[31].

207. **The water and wastewater sector is characterised by poor infrastructure resulting in unreliable services and high leakage losses.** Large parts of water and wastewater infrastructure originate from the Soviet period, have deteriorated, and have not kept up with demographic demand. Water supply disruptions are common with many urban and most rural consumers suffering supply limitations. Large quantities of untreated wastewater are being discharged into rivers, canals, agricultural areas, and groundwater resources, causing environmental pollution and water contamination[32].

208. **The government recognises the need for sector reform and investment.** Major reforms have included the gradual consolidation of local utilities into Uzsuvtaminot JSC, a national agency that is managing and developing projects in the sector, and the creation of the Ministry of Housing and Communal Services with responsibility for sector policy, coordination, and implementation. The government has set targets for a major expansion of water and wastewater coverage, with estimated investment costs of US$4.1 billion for water supply and US$ 2.7 billion in wastewater systems.

b. A Theory of Change for Municipal infrastructure

209. **The ToC for EBRD's operations in the municipal infrastructure sector follows the same three-step framework (Figure 40).**

[31] Climate Risk Country Profile: Uzbekistan (2021): The World Bank Group and the Asian Development Bank
[32] Sector assessment summary, water and other urban infrastructure and services, Asian Development Bank, 2021

Figure 40: ToC in municipal infrastructure

EBRD's support to municipal infrastructure

210. **Over the 2017-22 period, the EBRD signed a total of 11 operations in municipal infrastructure with a total ABI volume of €611 million.** This included two projects in district heating, which were among the first operations signed in 2018 but were fully cancelled in 2020 (€131 million ABI). There were seven operations signed in water and wastewater sector in 2018-21, with total ABI of €367 million, and two projects in solid waste management signed in 2022, with an ABI of €112 million. All municipal infrastructure projects were in the sovereign portfolio.

211. **All operations were accompanied with TC donor funds for project preparation and for corporate development support, and later also for skills training programme and enhancing equal opportunities.** This also included a Centralised Project Implementation Unit (PIU) for water and wastewater projects financed from loan proceeds. The Bank also committed to supporting CDPs in implementing organisations to enhance their operational and financial capacity.

Additionality in municipal infrastructure – high additionality in a sector with many financiers

212. **High investment needs ensure high financial additionality in a sector with many financiers.** All operations in the sector are sovereign. In this context IFI finance continues to bridge the infrastructure financing gap and is neither crowding out nor duplicating others' efforts. The following table presents an overview of IFI projects in water and sanitation, which total US$ 2.2 billion (Table 10).

Table 9: On-going IFI investment projects in water supply and sanitation, June 2023

IFI	Nr. of projects	Volume (US$, million)
Asian Development Bank	5	611.7
European Bank for Reconstruction and Development	7	420
World Bank	4	310
Asian Infrastructure Investment Bank	1	385.1
Islamic Development Bank	1	57.5

Saudi Development and OPEC funds	3	126.5
French Development Agency	2	130.9
French SUEZ company	1	170

Source: Uzsuvtaminot IFI report[33]

213. **Municipal infrastructure operations provide non-financial additionality through CDPs and the promotion of high standards in environmental and social due diligence and procurement.** The objective of CDPs is to support the institutional, operational and financial capacity of utilities, leading to improved commercialisation and sustainability of their services. The conditionalities of EBRD implementation, including the development of Environmental and Social Action Plans and applying the Bank's Procurement Policies and Rules are also part of the non-financial additionality.

Progress on implementation

214. **Strong delivery on ABI has not yet been translated into physical delivery.** Two projects in district have been cancelled, and cumulative disbursements in water and wastewater sector remain low. The average cumulative disbursements on the operations are at 3 per cent so far, excluding projects signed in 2022 (Table 10). Disbursements so far have been used mainly for PIU, project design and preparation of tendering documents. Some procurement is underway for supporting implementation such as vehicles or machinery. Accumulation of commitment fees on undisbursed facilities represents the price of non-implementation for the client. Tender for the delivery of CDPs is on-going at the time of evaluation, implementation has not yet commenced.

Table 10: NCBI and cumulative disbursements in municipal infrastructure at end 2022

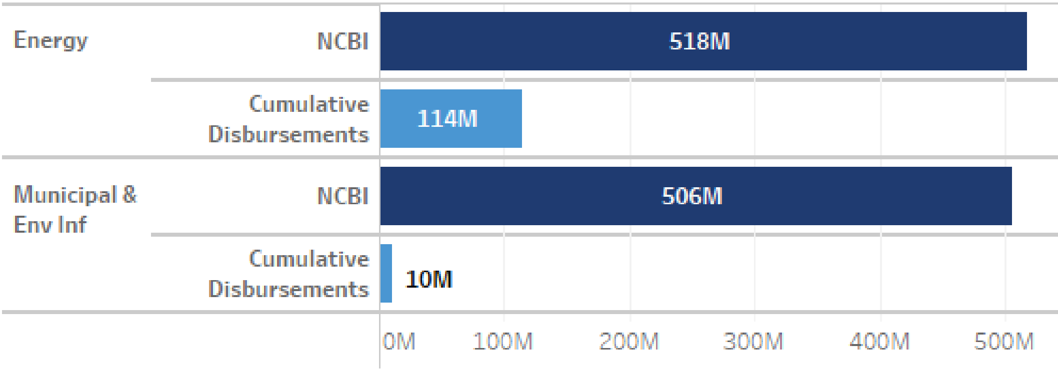
OpId	Project name	Signed	Status	NCBI	Cumulative disb.	Disb of NCBI
49213	Tashkent DH - Tashteplocentral Project	2018	Cancelled	-	-	-
49214	Tashkent DH - Tashteploenergo Project	2018	Cancelled	-	-	-
49277	Tashkent Water Improvement Project	2018	Repaying	28.1 M	0.8 M	3%
49358	Horezm Water Project	2018	Repaying	56.2 M	1.5 M	3%
49359	Namangan Water Project	2018	Repaying	56.2 M	3.6 M	6%
50525	Kashkadarya Wastewater Project	2019	Disbursing	56.2 M	1.2 M	2%
50526	Horezm Wastewater Project	2019	Disbursing	84.3 M	1.6 M	2%
50979	Surkhandarya Water Project	2020	Disbursing	46.8 M	0.6 M	1%
51032	Namangan Regional Water and Wastewater Project	2021	Disbursing	65.6 M	0.7 M	1%
50696	Karakalpakstan Solid Waste Project*	2022	Signed	65.6 M	-	-
50697	Horezm Solid Waste Project*	2022	Signed	46.8 M	-	-
				505.8 M	10.0 M	3%**

*) Loan not yet effective at end 2022
**) Excludes NCBI from 2022 projects

33 https://uzsuv.uz/en/ifireports

The efficiency of implementation in the sovereign MEI portfolio compares unfavourably to other sovereign projects in Uzbekistan. Sovereign MEI projects also compared unfavourably compared to other sovereign transactions within the SIG portfolio; cumulative disbursements in sovereign energy projects were at 22 per cent of NCBI, while the same measure was 2 per cent in municipal infrastructure at the end of 2022. (Figure 41).

Figure 41: NCBI and Cumulative disbursements in sovereign infrastructure sectors



Box 8: Reaching the limit? Sovereign investments in Uzbekistan

Uzbekistan is one of the top five CoOs in sovereign limit utilisation, while sovereign operating assets on portfolio are by far the lowest. At the end of 2022, Uzbekistan was at 61 per cent utilisation of its sovereign limit, the fourth highest of all EBRD CoOs. However, sovereign operating assets on sovereign portfolio were only at 12 per cent, by far the lowest of all countries. In 2022, while commenting on proposed new sovereign operations, Credit noted that the exposure to the Uzbek sovereign is rapidly becoming a concentration risk.

Country	Sovereign PTF m€	Sovereign OA m€	Sovereign OA/PTF	Sovereign Limit m€	Sovereign Utilisation	Expected Sovereign Utilisation incl. Pipeline
UKRAINE	2,263	881	39%	2,500	91%	106%
EGYPT	2,077	518	25%	2,500	83%	87%
BOSNIA AND HERZEGOVINA	925	542	59%	1,472	63%	103%
UZBEKISTAN	1,023	124	12%	1,680	61%	104%
SERBIA	951	463	49%	1,680	57%	108%

Source: RDMR 885 -Sovereign Management Limits, month end 2022/12

This high concentration and slow utilisation may limit future new pipeline development in sovereign portfolio. Taking into account the existing sovereign pipeline and the particularly long tenors in this portfolio, Uzbekistan is reaching its sovereign exposure limits. This would curtail the Bank's ability to pursue new deals and remain responsive to government demand. Banking colleagues suggested this was already happening, with slow utilisation limiting both client demand and the Bank's willingness to pursue further projects. This highlights the potential opportunity cost of signing sovereign projects and then not actively disbursing.

215. **Delays in delivery have been caused by a confluence of factors including institutional changes, limited implementation capacity, changes in design, and the pandemic.** Institutional changes, including the establishment of Uzsuvtaminot JSC in late 2019 as the national water supply and sanitation utility, resulted in administrative delays and hindered progress. While the client expressed appreciation for EBRD's e-procurement management system and compared it favourably with other IFIs, procurement has also been affected by delays. Due to delays in physical implementation, some critical investments included in the scope of some projects were implemented using budget funds. These changes in scope mean further delays where the Bank has to review the proposed changes and approve the use of proceeds. The two most recent projects in solid waste management signed in 2022 have already been subject to a request for a change of scope and at the time of evaluation are on hold until an agreement is reached. A key underlying factor behind many delays is changes in the political economy environment, such as changes to the key counterpart, which were not anticipated by the EBRD and led to challenges in project implementation.

It is plausible that these delays are occurring because projects are being signed prematurely. Stakeholders interviewed by EvD noted the challenging contexts in which the Bank is operating in MEI, and the degree to which extensive preparation was necessary (including advance procurement processes) to ensure political commitment and successful projects. This conclusion is reinforced by the overarching summary of the MEI portfolio: two projects cancelled, two on hold due to client requests to change the scope, and seven delayed with little disbursed.

Disbursement rates also compare unfavourably with other IFIs. Water and wastewater projects provide a good example. The EBRD has 7 active projects with Uzsuvtaminot, and the ADB has 5. Although the ADB projects were overall signed earlier, disbursement rates have been much more significant – even on projects signed from 2018 onwards. Table 11 shows disbursements on the ADB projects: in comparison, the average EBRD disbursement is 3 per cent.

Table 11: Disbursement rates of ADB-financed projects in municipal infrastructure

ADB projects with Uzsuvtaminot			
Project name	Signed	ADB financing (mUS$)	Disb of ADB Financing
Djizzak Sanitation System Development Project	2015	81 M	66%
Tashkent Province Water Supply Development Project	2017	120.9M	44%
Western Uzbekistan Water Supply System Development Project	2018	145M	8%
Second Tashkent Province Water Supply Development Project	2019	105.3M	28%
Tashkent Province Sewerage Improvement Project	2021	161M	15%

c. Behavioural change and market change

216. **Given limited implementation, it is not feasible to expect EBRD-induced changes in the sector.** The lack of physical implementation implies no changes from improved resource efficiency and related GET physical indicators and from the social perspective no progress on the number of households connected to water and wastewater services. The delays in CDP implementation mean no institutional changes within EBRD's counterparts. These projects could still deliver over the course of the next strategic period, but despite signed transactions there is no certainty given the potential for further delays, changes in scope, and cancellations.

Annex 5. Transforming Uzbekistan's Energy System

Over the period 2017-22, the EBRD provided support to transforming Uzbekistan's energy systems through a wide range of different mechanisms. These included financing for both renewable energy and gas-powered generation, the development of transmission grid infrastructure, and significant policy-dialogue and capacity building initiatives. The Bank's activities have come in response to a major shift in the government's approach since 2017, with increased openness to sectoral reform, private sector generation, and renewable energy.

Along with other DFIs, EBRD's operations have provided further momentum to the government's reform agenda and helped to translate this new approach into concrete outcomes. Uzbekistan's first utility-scale renewable energy systems are now connected to the national grid, operating under a regulatory regime developed since 2017, and through the unbundling process the structure of Uzbekistan's electricity system has transformed.

a. The background – a state-dominated sector

217. **Uzbekistan's electricity sector relies primarily upon old, inefficient gas power stations, which provide around 85 per cent of the country's electricity.** As of 2017, there was no private sector generation in Uzbekistan and no utility-scale non-hydro renewable electricity generation. Emissions intensity and energy intensity per unit of GDP was high, as a result of heavy reliance upon inefficient power plants and subsidies, which encouraged wasteful energy use.

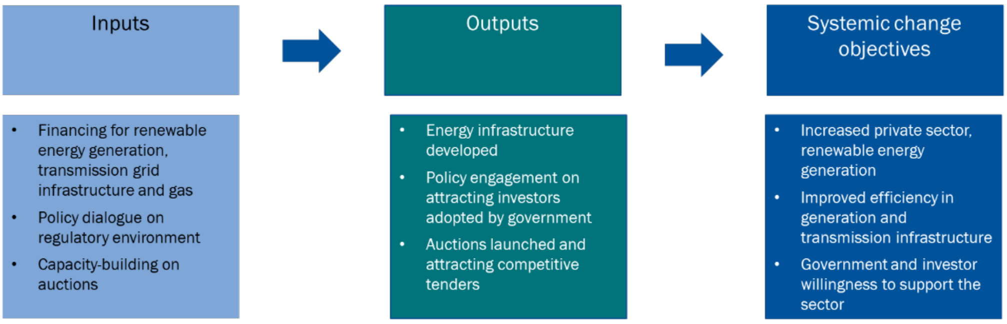
218. **Uzbekistan has faced recurrent issues with blackouts and irregular electricity supply, including severe power outages in late 2022/early 2023 during a particularly cold winter.** Electricity demand is expected to grow significantly in coming years, doubling between 2020 and 2030 as a result of increasing economic prosperity, Uzbekistan's growing population, and further electrification of the economy.

219. **President Mirziyoyev's administration has committed to major reforms.** These include the unbundling of the state-owned energy company, legislation enabling private sector generation of renewable energy and tariff reform. The energy company has been unbundled into four separate entities, overseeing distribution, transmission, thermal generation, and hydro generation respectively, and the 2017 Renewable Energy Law and 2019 PPP Law have provided the platform for renewable energy auctions and Uzbekistan's first utility-scale Renewable Energy Power Plants. The government is now targeting 30 per cent electricity generation from renewable energy by 2030, an increase from about 7.5 per cent in 2019 (all hydropower). A staged approach to tariff reform has been launched, but implementation was delayed because of the pandemic.

b. A Theory of Change for the Energy sector

220. **In keeping with the approach employed in other sectors, the ToC for EBRD's operations in the energy sector used the same 3-step framework (Figure 42).**

Figure 42: ToC in energy



EBRD's support in the energy sector

221. **Between 2017-22, the Bank signed 11 separate transactions in energy, committing to €1.122 billion of financing.** This included six renewable energy projects, two gas projects, two transmission projects and one COVID-19 facility providing liquidity to the state-owned thermal power generation company during the pandemic.

222. **The renewable energy generation projects were all signed with private sector sponsors.** The transmission projects were signed with NEGU. The first gas power plant project was sovereign, whilst the second was a private sector transaction.

223. **The EBRD has played a substantial role in providing policy dialogue and capacity-building support primarily targeted at state counterparts.** This has included significant support in drafting Uzbekistan's PPP Law and Electricity Law, TC directed at the renewable energy auction process, and leading on Uzbekistan's Low-Carbon Pathway for the Energy Sector. The Bank has also engaged directly with NEGU (and its predecessor, Uzbekenegro), to support the unbundling process and to provide capacity building to the newly established entities.

Additionality in the energy sector – a changing dynamic

224. **The provision of both financing and policy dialogue support has been carefully coordinated with other IFIs, particularly the WBG and the ADB.** To maximise effectiveness, the government agreed with IFIs an informal "division of roles". On the legislation and regulatory side, the WBG led on the 2017 Renewable Energy Law and the solar auctions, the EBRD led on the 2019 PPP Law, the draft Electricity Law, and the wind auctions, and the ADB led on tariff reform.

225. **This coordination extended to financing particularly for renewable energy projects.** The IFC and the ADB acted as the primary financer for solar projects, and the EBRD led on financing for wind. This was not an exclusive division. For the first solar project, for example, the IFC and the ADB provided project financing whilst the EBRD provided an equity bridge loan.

226. **There is growing commercialisation of financing into the renewable energy sector.** Unsurprisingly, the first wave of renewable energy projects in Uzbekistan attracted limited interest from large international investors. More recent financing rounds have elicited interest from both other DFIs as well as commercial investors. The EBRD has facilitated this process by

arranging for the syndication of financing both to bilateral DFIs such as Proparco and FMO, as well as to commercial financial institutions such as Standard Chartered.

227. **Besides renewable energy financing, the EBRD and other IFIs have provided support for the development of Uzbekistan's grid transmission infrastructure.** As is standard practice for transmission infrastructure projects, these are sovereign loans for the construction and modernisation of Uzbekistan's national grid. As sovereign loans, they have limited prospects for commercial financing. The scale of investment needs for Uzbekistan's transmission grid infrastructure also exceeds the limit of any single DFI, necessitating investment from multiple stakeholders, particularly the EBRD, the WBG, and the ADB.

Progress on implementation

228. **Overall, there is good evidence of implementation of projects in renewable energy, with more delays in other parts of the sector.** Key developments have included:

- The two solar plants developed partially with EBRD financing are operating and connected to the grid, after being constructed largely on time and within budget.
- Three wind projects reached financial close in 2022, with COD expected by 2025.
- The two gas projects have had mixed success. Syrdarya has faced some delays as a result of supply chain problems caused by the Russian war on Ukraine and is over budget, but is still expected to reach completion by YE 2023. The procurement contract for the Talimarjan Power Plant was signed in November 2022, after loan signing in 2019, with physical completion of the plant substantially delayed beyond the original target date of 2023.
- Transmission projects have faced delays. The Muruntau Substation was signed in October 2018 but only declared effective in October 2022. Construction is now expected to be completed by YE 2024, compared to an original target of 2023. Navoi Transmission was signed in 2019 and declared effective in 2021. Construction is ongoing although the original target date of completion was YE 2022. Sarimay-Djankeldy Transmission was signed in 2022 but has yet to begin disbursements. There have been substantial cancellations on the Muruntau Substation and Navoi Transmission projects, although these were driven by procurement savings rather than by downscaling projects.

229. **Previous evaluations have demonstrated that renewable energy projects are more likely to be built on time and under budget compared to grid infrastructure or thermal generation.** This trend in the implementation success of energy projects in Uzbekistan is largely in line with both EBRD's experience and evaluation reports from other DFIs and reflects the increased technical complexity of transmission infrastructure and thermal generation as well as some of the challenges in working with SOEs. The latter point is particularly critical: the Syrdarya gas power plant, which has a private sector sponsor, has been largely successful whilst Talimarjan, a sovereign loan on-lent to the JSC Thermal Power Company, has been significantly delayed.

230. **The EBRD can also point to tangible policy achievements.** These have included the Low-Carbon Pathway, the PPP Law, unbundling of the state energy company, and support to wind auctions. Other initiatives supported by the EBRD are still in progress, including a new electricity law, and a low-carbon pathway for the entire economy.

231. **The Development of a low carbon pathway strategy for the energy sector provided a high-level strategic framework for policymakers in Uzbekistan.** It demonstrated the necessity of scaling up renewable energy investment, decommissioning old and inefficient thermal power plants and careful investment into modern gas power plants to bridge the energy transition gap. The low carbon strategy has been enthusiastically adopted by the government, including via

publication on its website. The government also agreed to a follow-on TC project to develop a long-term strategy to meet its Paris Agreement commitments, which is still ongoing.

232. **The unbundling of the vertically integrated Uzbekenergo has been successful, with the four new entities fully operational.** The EBRD provided some support to this process, with a focus on improving compliance and addressing corruption. Concrete outputs from this TC include NEGU becoming the first major public entity in Uzbekistan to be awarded an international anti-corruption ISO certificate. The state-owned JSC Thermal Power Plants achieved certification in December 2021, following the Bank's support with setting up a compliance function. These included setting up compliance functions, assistance to introduce IFRS and help to develop corporate planning function, as well as development of decommissioning guidelines for JSC Thermal Power Plants.

233. **The EBRD played a leading role in Uzbekistan's wind auctions, which have successfully led to the financial close of one wind project.** The Bank provided a wide range of support, including site visits for Uzbek officials to wind power plants in Kazakhstan, support on the site selection process (including modelling of energy yields and assessments of potential environmental and social issues), preparation of tender documents, and bid evaluation. The first wind auction was organised in April 2020 and generated 70 initial expressions of interest, with ACWA power being awarded the tender in 2021. Subsequent wind auctions are progressing, with a phase two covering a 200 MW facility and a phase three for a 1 GW project in the pipeline.

234. **The Bank also supported the process of drafting a new PPP Law, which was adopted in 2019.** Renewable energy projects in wind have been implemented under the framework of this law, as well as municipal projects in other sectors.

235. **Substantial support has been provided for drafting Uzbekistan's new Electricity Law, which has not yet been ratified.** Representatives from the Ministry of Energy and the Ministry of Investment and Foreign Trade were very positive about the draft law and the potential impact it could have on the development of the sector. However, adoption has been delayed until the government establishes an independent energy regulator.

c. Behavioural change and market change

236. **There is clear evidence of systemic change in how stakeholders view the energy sector.** Both the government and private sector investors have demonstrated increased interest in support renewable energy, a result which can be directly related to the EBRD's role. This is leading to concrete changes in how Uzbekistan generates its electricity.

> *"The intention is to increase the share of renewables in the long term planned energy mix of Uzbekistan because in the latest PV tenders, the low tariffs discovered in the competitive process have brought optimism to the Ministry of Energy."*
> *Ministry of Energy Press Release*

237. **The changing level of government support to the renewable energy sector is demonstrated by the increase in targets for renewable energy generation.** Between 2020 and 2022, the government increased the 2030 target for renewable energy generation from solar and wind from 7 to 12 GW, based upon the successful auction process and the low prices achieved. This has led to positive revisions to other environmental targets too; in 2021, the Government updated its NDC under the Paris Agreement to target a 35% reduction by 2030 in greenhouse gas emissions from 2010 levels, compared to the previous goal of 10 per cent. The government has also

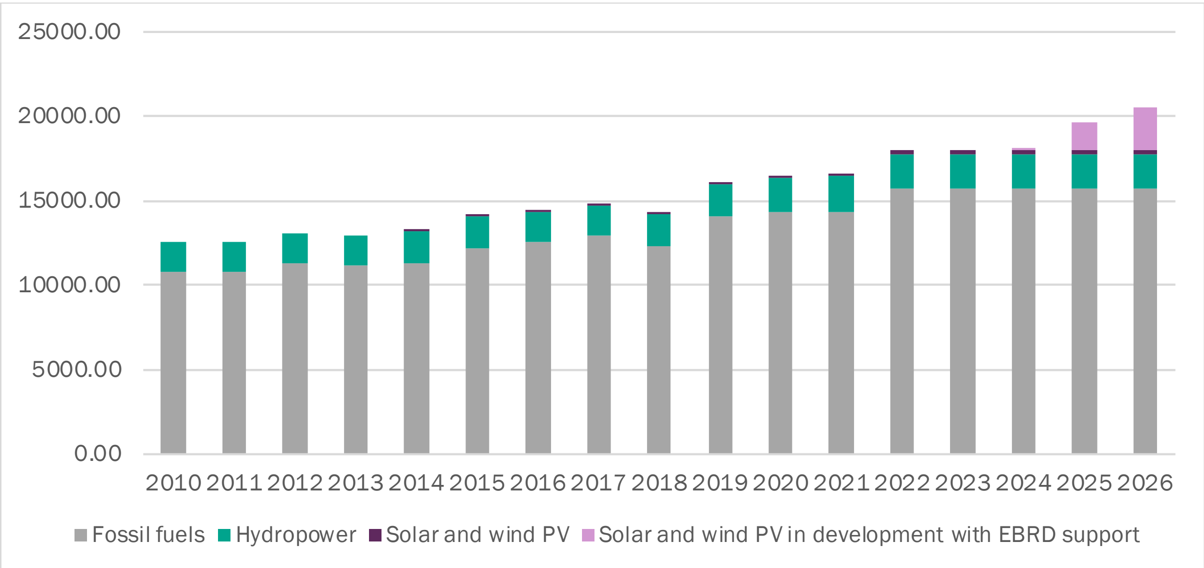
committed as part of EBRD loans to decommissioning of old gas power plants, although not until 2030.

238. **The interest from both the private sector and from government has also been demonstrated by the scale-up of competitive renewable energy auctions, particularly in solar.** From the first solar auction in 2019 to the most recent in 2022, the auctions have become bigger, attracted a larger range of bidders, and led to lower prices. The first solar auction in 2019 attracted 23 bidders and a winning price of US$ 2.68/kWH for a 100 MW facility; in comparison, the next round had 54 pre-qualified bidders, and a winning price of US$ 1.80/kWH for a 457 MW plant. Subsequent rounds have introduced further innovations, such as battery storage components. The interest from investors reflects the attractiveness of the regulatory regime and the security provided by DFI financing.

239. **For wind projects, progress has been faster using bilateral contracts rather than competitive auctions.** During the period 2017-22, the Bank signed three transactions supporting wind power farms totalling 1.5 GW, all of which were directly contracted. The first competitive tender in wind, which was overseen by the Bank, was also launched during this period, but progress has been slower with the signing occurring in May 2023, 18 months after the contract was first awarded. This delay is partially attributable to changing regulations; whilst the solar auctions were launched under the 2017 Investment Law, the wind auctions were under the 2019 PPP Law (developed with EBRD support), which was more challenging to initially navigate.

240. **These projects have started contributing towards changing Uzbekistan's energy system.** However, as of YE 2022, the only projects that were fully operational and generating electricity were Samarkand Tutly and Nur Navoi solar. Forecasts of Uzbekistan's electricity generation going forward do demonstrate the extent to which renewable energy projects supported by the EBRD are shifting Uzbekistan's electricity mix but also illustrate the strong fossil fuels presence (Figure 43).

Figure 43: Electricity generation in Uzbekistan



Source: IRENA Data, EvD elaboration

241. **With respect to physical grid infrastructure, it is too early to consider systemic change.** Projects are still in the construction phase, with no impact as yet on improving energy reliability, increasing energy efficiency, or actively supporting the development of renewables.

242. **However, there is evidence of change within the grid operator.** The unbundling process initiated by the EBRD, which created a standalone transmission operator (NEGU), is an important structural change in how the market operates. Stakeholders from NEGU noted the new organisation's attitudinal shift towards private sector energy generation, as well as cross-border electricity market connections. Going forward, NEGU has ambitious plans which could further change how the system operates, including by supporting further unbundling into a single buyer and transmission operator, and capital raising without a sovereign guarantee.

Annex 6. Building the private sector from the grassroots

Uzbekistan's private sector is small, fragmented, and lags regional peers on productivity metrics. The continuing presence of SOEs in key strategic sectors such as construction, manufacturing and telecoms restricts the opportunities for private sector businesses. Structural challenges such as access to electricity, unfavourable tax policy, access to finance, and restrictive regulations further undermine and constrain SME growth.

The government has recognised the importance of developing the private sector, as demonstrated both by its privatisation programme for SOEs and policies aimed at boosting entrepreneurship, such as the "Every Family is an Entrepreneur" Programme. Addressing barriers to trade and embarking upon FX liberalisation has also provided private sector businesses with a tangible route to export markets.

EBRD support to the private sector has been channelled through two primary mechanisms: financing for private sector businesses (both directly and through the RSF), and the ASB Programme. Between 2017-22, the EBRD committed to US$ 210 million of financing for private sector businesses, primarily in the agribusiness and pharmaceutical sectors and launched 258 projects under the ASB.

a. The background – an emerging private sector

243. **Uzbekistan's economy continues to be dominated by SOEs in strategic industries.** As of 2020, SOEs accounted for over 50 per cent of GDP, with a particularly strong presence in strategic sectors such as construction, telecoms, energy, mining, and manufacturing[34]. The continuing presence of SOEs restricts market opportunities for private sector businesses.

244. **In comparison, SMEs in Uzbekistan are fragmented and face barriers to growth.** Tax incentives for small businesses have contributed to the artificial fragmentation of SMEs as demonstrated by the increasing number of registered operating SMEs and their declining share of employment. Other barriers to growth include the reliability of electricity supply, access to credit, legal uncertainty, and limited access to business services.

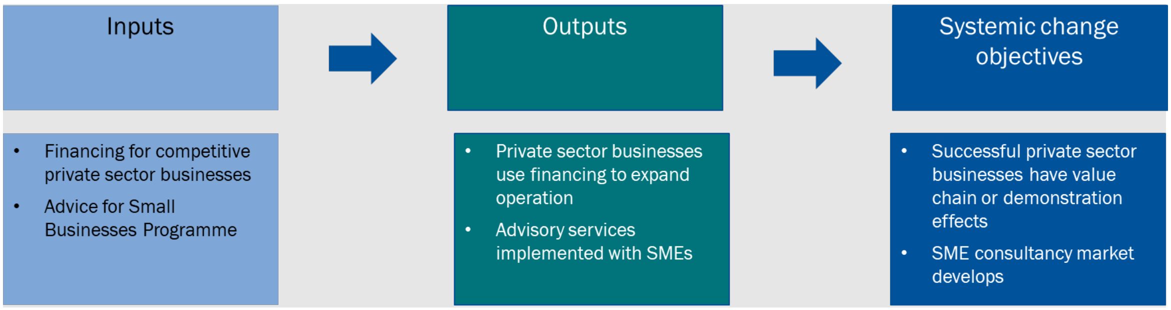
245. **As a result, across a range of metrics the private sector in Uzbekistan has performed poorly.** Annual labour productivity growth between 2016-19 was negative, new firms have expanded faster in comparator countries and rates of entrepreneurship are lower.

246. **The government of Uzbekistan has committed to addressing some of these weaknesses.** Key components of the government of Uzbekistan's 2017-21 Development Strategy included reducing the state's presence in the economy and encouraging the private entrepreneurship.

b. Theory of Change in the private sector (Figure 44)

[34] Explain or sell: how the state reduces its participation in the economy – Spot

Figure 44: ToC in the private sector



EBRD inputs

247. **Between 2017-22, the EBRD signed 25 transactions supporting private sector businesses, including 5 projects signed via the RSF with PFIs.** Twelve projects were in the agribusiness sector, six in pharmaceuticals, and the remaining seven were split across different manufacturing and retail sectors. The average NCBI per project was €8.7 million.

248. **The EBRD ASB Programme is highly active in Uzbekistan. The** ASB started its activities in Uzbekistan very early after the Bank's re-engagement in late 2017 and represented the first direct outreach to the private sector. The ASB Team expanded from Tashkent to open additional offices in Urgench and Andijan and now has seven ASB officers (Box 1).

Box 1: Advisory services for SMEs

ASB is a donor funded EBRD programme, implemented in most of the Bank's CoOs. The overall objective of the programme is to the increase growth and competitiveness of the SME sector through access to advisory services. This means both developing local consultancy markets (supply), as well as raising awareness with SMEs about the role of advisory and promoting their uptake of such services through direct subsidies (demand). ASB activities do not generate EBRD ABI directly and are likewise not TI assessed or rated. In this respect they are similar to non-transactional TCs.

ASB consultancy projects with SMEs, 2017-22

Local consultancy projects	243
International advisory projects	14
Group advisory projects	1
Local consultants pre-qualified to implement local consultancy projects	122

Non-projects activities, market development activities, 2017-22

Type of non-project activity	Nr of activities	Nr of participants
Trainings	22	557
Visibility events, seminars and conferences	14	2,424
Communication campaigns and online platforms	3	11,421
Other activities	12	501
Total	**51**	**14,903**

Additionality in direct financing to the private sector – filling a clear market gap

249. **There is clear evidence that other DFIs are not able to provide financing to private sector businesses in Uzbekistan at the same rate as the EBRD.** Over 2016-22, the IFC's only investment in this category was with Indorama as part of projects providing co-financing with the EBRD. Neither the ADB nor FMO are active in this sector.

"We discussed options with other IFIs, but the EBRD is the most active and most realistic bank in the market."
EBRD client

250. **This conclusion was reinforced through interviews with private sector clients.** None of the local private sector clients interviewed by the EBRD had experience or exposure with other DFIs, demonstrating EBRD's unique capacity amongst DFIs to reach smaller, private-sector clients.

251. **Client interviews showed that they perceived EBRD's financing as additional.** Clients noted the difficulties of securing financing from local banks, particularly in FX on longer terms, and the limited interest of international banks. In some cases, clients were adamant that the project would not have gone ahead without EBRD's participation.

252. **In addition to financing, clients provided evidence of EBRD's additionality via both capacity-building and EBRD attributes.** The Bank's due diligence process and ESG requirements, both of which were more stringent than local private sector clients were used to, helped to raise standards, whilst the EBRD provided support on wider corporate governance standards (e.g., the introduction of IFRS accounting). Clients also noted the reputational benefits of a project with the EBRD.

"The EBRD standards were needed - they are helping our company, and helping to make our decision making more structured."
EBRD client

Implementation

253. **There is some evidence of progress and implementation across these private sector projects.** Notable examples include Anglesey Food, which used an EBRD equity investment to expand from 47 grocery retail stores to 103 by YE 2022, and Jurabek Ampoule, which built a new pharmaceutical manufacturing line financed by the EBRD. However, 13 of the 24 were signed in 2021 and 2022, meaning that implementation is still largely ongoing whilst projects signed prior to 2021 were disrupted by the COVID-19 pandemic in some cases.

254. **Some projects have experienced cancellations or material changes in scope.** The single largest project, Indorama Capex, a US$ 60 million facility to expand a greenfield cotton farming hub, was half cancelled. However, this reflected an improvement in the sponsor's financial position and their lower risk profile, rather than any changes to the project objectives or scope. The EBRD also provided US$ 10 million to Agromir split into a US$ 5 million working capital tranche and a US$ 5 million capex tranche, but ultimately the entire loan amount was utilised for working capital.

255. **A couple of projects have faced payment difficulties and as a result are in corporate recovery.** However, these are for small projects, and business challenges can be primarily attributed to difficulties stemming from the COVID-19 pandemic and the Russian war on Ukraine.

256. **ASB collects data on the growth of its SME clients at one year point after the completion of advisory, showing significant average growth.** According to this data, of all clients for the

2017- 22 period 78% increased their turnover, 77 per cent increased the number of their employees, 58 per cent increased their productivity, and 26 per cent increased their exports.

257. **There is also qualitative evidence of SME-level results and high levels of satisfaction with ASB.** Representatives of SMEs were satisfied with ASB projects and identified specific examples of advisory leading to cost savings, increased efficiency, opening new channels of business, and increased sales including export. Other elements of ASB value added included their support in the pandemic period with establishing digital business as well as digital marketing. ASB is seen as a guarantor of quality of the consultancy services provided.

c. Market change

258. **There is no evidence of systemic change at the sectoral level as yet.** This result is not surprising. Given the timeframe involved and the wide range of sub-sectors within the portfolio, it would not be realistic to see concrete evidence of systemic change at the sectoral level.

259. **The Indorama Capex project has potential for systemic change.** As a large international investor into Uzbekistan, piloting the first vertically integrated cotton and textile cluster, this investment could plausibly lead to significant disruption to Uzbekistan's large cotton and textiles sector, and act as a demonstration effect for other investors. However, implementation is still ongoing, with Indorama still scaling up production. Furthermore, despite the success in shifting away from forced labour, there are continuing allegations of governance and human rights issues in cotton, including with direct links to Indorama.

260. **There are early signs of organisational change at the client-level.** Clients provided examples of how they had changed their approach and behaviour to meet the EBRD's requirements and standards. However, it is too soon to assess the permanence of these change and whether they will catalyse wider market effects.

261. **Market level impacts of ASB activities are difficult to establish but there are some indications of a positive trajectory.** From the perspective of SMEs, in a country with more than 500,000 registered SMEs, the expectation must be one of demonstration effects rather than of reaching a critical mass through individual clients.

262. **Demonstration effects are aided through a range of promotional, awareness raising and visibility events.** Digital channels of outreach are increasingly being used, such as the innovative partnering of ASB with a popular YouTube channel of local entrepreneurs on a series of masterclasses. ASB also intends to identify and facilitate the growth of a limited number of high potential local companies in the Blue Ribbon Programme, through a series of advisory and financing options. Regarding consultancy markets there is currently no overall consultancy association but ASB collaborates with sectoral ones such as marketing and hospitality industry. These associations also see the partnering with ASB as a benchmark of quality and prestige, and a benefit to their members' business. With both SMEs and consultants identifying the key value of ASB in the high quality of services provided, while also noting that demand from SMEs for high quality advisory is high, questions might prospectively arise about the subsidising of individual transactions and the potential for market distortions. In the future, these could be limited to high social and environmental value projects where market failures are identified, while the main mode of ASB business would be on the continued support of market infrastructure.

Annex 7. The Integrated Cultural Heritage Framework (ICHF)

The **Integrated Cultural Heritage Framework** (ICHF, OpID 49640, BDS18-032) was approved by the Board in February 2018, with a headroom of €150 million for projects in Uzbekistan, Romania, Albania, Jordan, and West Bank and Gaza (pilot locations).

The over-arching objective of the framework was to serve as a cross-**sector catalyst for regional and sustainable tourism development** through i) investment to projects across relevant sectors, that would will facilitate tourism related to cultural heritage sites; and ii) non-transactional policy dialogue through institutional engagement for the preparation and implementation of action plans targeting sustainable management and commercialisation of cultural heritage.

The primary TQ of the framework was **Competitive**, with the secondary TQ **Well-governed**.

In Uzbekistan the following **investments** were signed under the framework:

Sector	Project	Signed	NCBI (€)	Disb (€)	Note
P&T	49641 Khiva Malika hotel	2018	0.3 M	0.3 M	In corporate recovery
MEI	50526 Horezm wastewater project	2019	84.3 M	1.6 M	Not yet implemented

There were extensive **policy dialogue and capacity building** activities implemented in the context of this framework, funded through SSF TC, the disbursements of which totalled €1.2 million. The activities included (not exhaustive):

- MoU with the Government and partnership MoUs (Smithsonian Institution, UNWTO, Visa Foundation)
- Setting up a Stakeholder Working Group to design and implement Action Plan for the tourism in Khiva/Horezm region
- Mapping for heritage and tourism
- Capacity building for the State Committee for Tourism Development, State Reserve Museum with 14 museums in Khiva, the Mammun Academy, the Ministry of Culture, Khiva municipality
- SME trainings
- Mud architecture restoration training
- Security management plan for key sites in Horezm

Overall, the **implementation of the framework in Uzbekistan cannot be seen as successful**, as the extensive and mutually reinforcing activities in policy and capacity were not matched with the intended implementation on the investment side.

The **approach to the implementation of investment is somewhat confusing.** While the Use of Proceeds for the framework allowed for virtually any client (private, sovereign, sub-sovereign) and instrument across sectors, the TI benchmark for the framework was indicative of at least partially

SME-focused expectation and rationale (*At least 4 SME direct investments* for Uzbekistan). In this context, signing a €84 million wastewater operation under the framework makes little sense – this exhausted more than half of the headroom of a framework intended for five countries/ territories. More importantly, in the context of overall Uzbekistan strategic priorities and the Bank's presence in the water and waste water sector, it is likely that this operation would have been signed as a stand-alone investment in any case. In addition, signing it under the framework meant that the same benchmarks which were used in the other projects of this type (TQ Green/GET on wastewater treated and number of connections, and TQ Resilient on CDP implementation and tariff setting) were now inconsistently and unsystematically shoehorned under TQ Competitive to be relevant to this framework.

EvD considers that a case for a more **internally coherent approach to across the Bank's investment activities could have been made:**

- Projects in MEI and improved transport infrastructure were already key CS priorities for Uzbekistan and could have been implemented on a stand-alone basis while concentrated in the region targeted by this framework.
- Strategic priority in the private sector through indirect investment via frameworks such as DFF or RSF could have been increasingly targeted also in this region and to companies relevant to the tourism sector. This partially happened in one case where a client considered for financing under ICHF eventually was a client under RSF with Hamkorbank (50834 Khorezm Cheese).
- The ICHF framework then could have focused on direct SME and relatively smaller finance deals across sectors to support tourism to allow some critical mass of investment and demonstration effects.
- Further capacity building with explicit links to ASB for relevant SMEs in the region: this is also happening to some extent.
- This way, the framework could have been leveraged to mutually reinforce investment across the Bank's strategic priorities and promote internal coherence.
- Eventually, the one SME client under the framework was negatively affected by the COVID-related halt to tourism and while the intended renovation activities were implemented, the project is now in corporate recovery. The wastewater project is active but physical implementation is delayed.

The **ICHF was closed** "in light of COVID's impact on the tourism sector that hindered the ability to generate projects in the pilot countries", according to the team. This might also seem like a missed opportunity in the case of Uzbekistan in particular where there is a post-boom, further facilitated by the government's priorities in the sector and concrete actions for tourism promotion. Khiva itself has been named the tourism capital of Islamic world for 2024 by the Council of Ministers of the Organization of Islamic Cooperation, beating competitors form the UAE and Türkiye among others.[35]

[35] http://tashkenttimes.uz/national/9154-khiva-named-tourism-capital-of-islamic-world-in-2024