

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Uzbekistan	Project Title:	Hamkorbank Expanding Access to Credit for Micro, Small and Medium-Sized Enterprise and Agriculture Borrowers Project
Lending/Financing Modality:	Loan	Department/ Division:	Private Sector Operations Department Private Sector Financial Institutions Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY	
Poverty targeting: General intervention	
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy The Asian Development Bank (ADB) will provide a senior loan of up to the lower of (i) SUM200,000,000,000; and (ii) the sum equivalent of \$20,000,000 calculated using the spot United States dollar–sum foreign exchange rate on the signing date of the loan agreement to JSCB Hamkorbank (HMK) to expand its onlending to micro, small, and medium-sized enterprises (MSMEs) and agricultural borrowers. Most (80%) of ADB's loan proceeds will be onlent to borrowers outside of Tashkent. The transaction will have a focus on lending to woman-owned or -led MSMEs (footnote k) as shown in the Design and Monitoring Framework. The project is aligned with ADB's country partnership strategy in supporting private sector development and reducing economic and social disparities in the development of the finance sector through financial inclusion in rural areas and financing of small and medium-sized enterprises with a gender-empowerment focus.^a It also supports Uzbekistan's Five Areas Development Strategy for 2017–2021, which aims to achieve intensive development of agriculture and further strengthening of private ownership, development of small businesses, and private entrepreneurship.^b</p>	
<p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence 1. Key poverty and social issues. MSMEs plays a vital role in job creation and poverty reduction in Uzbekistan. On average, micro-enterprises each employ 8 people, small enterprises have at most 100 employees, and medium-sized enterprises have a workforce of as many as 250. The MSME sector is the primary source of employment in the country, providing 78% of employment opportunities, of which more than 60% are available in rural areas.^c The proportion of the population experiencing poverty decreased significantly from 25.8% in 2005 to 11.4% in 2018.^d The decrease in the poverty rate was attributed to the accelerated growth of the MSME sector from 2010 to 2018 because of several government-initiated programs that supported the sector (footnote c). However, access to finance remains a challenge for MSMEs in Uzbekistan, especially in rural and semi-urban areas outside Tashkent where entrepreneurs access finance through both informal and formal sources. A significant majority of these entrepreneurs reportedly rely on informal channels for credit. In 2017, only 2% of the population aged 15 years and above accessed credit from a formal financial institution as opposed to 13% who borrowed money from family and friends, of which only 1% borrowed to start, operate, and expand a farm or business.^e 2. Beneficiaries. The project will sustain and expand HMK's operations in providing access to financing to MSMEs and farmers, especially during the current economic downturn resulting from the coronavirus disease (COVID-19) pandemic. MSMEs are constrained in accessing finance through formal channels primarily because of the high cost of banking services, stringent loan conditions, and their lack of financial literacy (footnote c). Through ADB's assistance, HMK will channel funds to MSMEs for working capital and fixed asset financing to develop agriculture, production, trade, and services, largely in Andijan, Tashkent, and Fergana. Andijan and Fergana are among the three regions of Fergana Valley where incomes are below the national average.^f Given small average loan sizes to HMK's micro and agricultural borrowers, borrowers can be described as poor or vulnerable. The loans are used for their business activities and will likely improve their standard of living. Given this, the project is considered inclusive business. 3. Impact channels. The project will contribute to achieving financial inclusion and address the needs of MSMEs and farmers with respect to access to credit, particularly those from the poor and vulnerable groups. 4. Other social and poverty issues. None 5. Design features. The project is consistent with the existing ADB loan arrangements with HMK in terms of providing financial services but focused on MSMEs and agricultural borrowers. The outstanding loans to MSMEs are expected to increase to 66,244, with 11,731 loans to agricultural borrowers. HMK will also develop new products and activities that will cater to the needs of women borrowers.</p>	
II. PARTICIPATION AND EMPOWERING THE POOR	
<p>1. Participatory approaches and project activities. HMK's financial products and services are accessible by all interested individuals and groups. Information on HMK's corporate profile, code of ethics, news events, and advertising materials are accessible from the company's website. The website includes customer support live chat capabilities and contact information, as well as links to HMK social media accounts, which are provided to allow customers to communicate concerns and queries. HMK has a functional grievance redress mechanism managed by HMK's Department for Consumer Rights Protection and Customer Complaints. ADB assessed that customer communications and grievances (received through the corporate website, email, telephone hotline, in writing via the postal service, and personal visits to the bank) are well documented, and resolutions are tracked. In 2019, HMK</p>	

<p>received 5,488 individual communications involving concerns related to HMK's products and services, none of which were related explicitly to the environmental and social performance of HMK and its sub-borrowers.</p> <p>2. Civil society organizations. Information about HMK and its financial products and services can also be accessed by interested civil society organizations through the company website and its branch offices.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> (L) Information gathering and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Participation plan. The nature of the transaction will not require the preparation of a project-level participation plan. HMK will continue its stakeholder engagement activities through its customer relationship managers, market research, and the ongoing implementation of the grievance redress mechanism embedded in its operations.</p> <p><input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No.</p>
<p align="center">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: Effective gender mainstreaming</p> <p>A. Key issues. The principles of nondiscrimination and equal rights for women and men are enshrined in Uzbekistan's Constitution but there are unresolved issues related to the status of women and gender equality, such as significant gender disparities in property ownership, gender segregation in labor markets, and underrepresentation of women in high-level decision-making positions in all sectors. Traditional stereotypes regarding the roles of women and men in the family and in society are also a major challenge.⁹ Women's participation in the finance and insurance sectors (37.3% in 2016) is below the average for female participation in the workforce generally (49.5% in 2016).¹⁰ In 2019, it was estimated that only 25.9% of registered companies in Uzbekistan had some ownership by women.¹¹ Women mainly occupy the micro-business segment, mostly because of poor skills in finance and management, cultural barriers, and lack of access to finance.¹² In 2017, loans for women represented only 2.5% of total bank loans in Uzbekistan (footnote c). As of 1 October, 2020, HMK had a total of 2,582 staff, 20% of which were women, with particularly few women in management roles: just 4% in the head office and 2% at the branch level. HMK's corporate code of ethics includes anti-sexual harassment provisions. HMK has a "Women's Council" with a mandate to further women's progress within the bank. The council's activities include identifying the needs of female staff and developing interventions to meet these needs through such activities as training and outreach. During ADB's discussion with the Women's Council it was identified that a significant gender gap at the company was the poor representation of women in management. It was highlighted that a key barrier to women being promoted to management was the lack of professional development and capacity building opportunities available to women. To address these issues, it was proposed that the Women's Council would oversee the execution of a 12-month professional development program for a group of female staff selected for their strong management potential.</p> <p>B. Key actions. Key features of the gender action plan are as follows: (i) increase the number of loans to woman-owned or -led MSMEs by at least 60%, (ii) target that 22.5% of MSME loans onlent using ADB's loan will be to woman-owned or -led MSMEs,^k (iii) double (at a minimum) the number of women in senior management roles at branch level, and (iv) provide a 12 month professional development program for at least five selected female staff. HMK will submit periodic reports on implementation of gender measures to ADB.</p> <p><input checked="" type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>
<p align="center">IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p> <p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p> <p>1. Key impacts. HMK onlends to MSME and corporate entities. As of January 2020, HMK had 20,464 loans outstanding, of which 70% were to micro-enterprises and 26% to small and medium-sized businesses. About 96% of these loans were classified as Category C for both environmental and social impacts. For this proposed transaction, subloan applications assessed as involving involuntary land acquisition or resulting in access restrictions due to land use changes will be excluded from using ADB loan proceeds.</p> <p>2. Strategy to address the impacts. HMK has engaged with ADB through the Trade and Supply Chain Finance Program and sovereign operations for financing small businesses.¹ HMK has developed a dedicated environmental and social management system (ESMS) for these existing ADB-funded projects, in addition to its overarching ESMS; it will apply both ESMSs to screen out subloans with involuntary resettlement impacts.</p> <p>3. Plan or other Actions.</p> <p><input checked="" type="checkbox"/> Environmental and social management system arrangement</p> <p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p> <p>1. Key impacts. The corporate office and branches of HMK are located in major cities and towns. HMK's existing operations and subloan activities do not impact any distinct and vulnerable indigenous peoples communities, as defined in the ADB Safeguard Policy Statement (2009). Use of ADB proceeds is not envisaged to directly or indirectly benefit or target indigenous peoples.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions. <input checked="" type="checkbox"/> No action</p>

V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). <input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input checked="" type="checkbox"/> retrenchment (M) <input checked="" type="checkbox"/> core labor standards (L)	
2. Labor market impact. As of October 2020, HMK had 2,568 employees. The corporate office in Andijan City has 495 staff, with the rest deployed in 42 branches across Uzbekistan's major cities and towns. The employees in the corporate and branch offices are organized into the Joint Labor Union Committee (JLUC), which was established in April 2000. The JLUC has an ongoing collective bargaining agreement for 2019–2022 with HMK management, which was approved through a Bank Labor Union Conference held on 27 April 2019. HMK had to implement adjustments to its operations to address the challenges resulting from the COVID-19 pandemic. Performance-based salary increases were suspended for 2020, and a furlough was implemented during state-imposed lockdowns. In addition, HMK was forced to reduce its workforce and began the process of retrenchment of 62 employees, 49 of which are from branch units. HMK followed the prescribed workforce reduction process under existing laws and collective bargaining agreement provisions. The working groups informed and consulted the JLUC and labor representatives of each office prior to submitting their review and recommendations to the special committee. Affected employees were also formally notified in writing 2 months before the termination of the labor contracts. Subject to the improvement of the business environment, HMK will re-hire the retrenched employees, or they will be prioritized in future hiring. Following HMK's ESMS, all sub-borrowers are required to comply with applicable labor laws and regulations. Potential labor risks and impacts of each subloan are reviewed as part of the loan review and approval process and post-disbursement monitoring activities.	
B. Affordability	
The project will not result in any exclusion issues arising from price mechanisms.	
C. Communicable Diseases and Other Social Risks	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA) <input type="checkbox"/> Others (please specify) _____ (NA)	
2. Risks to people in project area. HMK abides by the government-issued regulations in protecting its workforce and its clients against the spread of COVID-19. Sanitation kits were distributed to all employees and compliance with safety protocols when dealing with co-workers and clients is monitored.	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. HMK will report the increase in the number of sub-borrowers from MSMEs, agriculture, and women-owned or -led enterprises using ADB proceeds. New products developed specifically for women-owned or -led MSMEs as well as training provided to women borrowers will also be reported.	
2. Required human resources. The ESMS team is composed of a head (ESMS manager) and a specialist (senior coordinator), and is an Environmental Expertise and Monitoring subunit under the Loans and Underwriting Department. The team ensures the implementation of the ESMS from loan processing to approval, and monitors and reports HMK's performance to lenders. Each branch unit has a designated ESMS coordinator who is usually the head of the branch office.	
3. Monitoring tools. HMK will report annually to ADB regarding the implementation of its ESMS, updates on its environmental and social policy, and the compliance of HMK and its sub-borrowers and contractors with national labor laws and core labor standards.	

^a Asian Development Bank (ADB). 2019. *Country Partnership Strategy: Uzbekistan, 2019–2023—Supporting Economic Transformation*. Manila.

^b Government of Uzbekistan. 2017. Presidential Decree No. 4947. On Strategy of Actions for Further Development of Uzbekistan. Tashkent.

^c D. Tadjibaeva. 2019. Small and Medium-Sized Enterprise Finance in Uzbekistan: Challenges and Opportunities. *ADB Working Paper Series*. No. 997. Tokyo: Asian Development Bank Institute.

^d ADB. 2020. *Basic Statistics 2020*. Manila.

^e World Bank. [Global Findex Database 2017](#) (accessed 29 November 2020).

^f Footnote a, Linked Document: Inclusive and Sustainable Growth Assessment.

^g Asian Development Bank. 2018. [Uzbekistan Country Gender Assessment Update, December 2018](#). Manila.

^h State Committee on Statistics. [Gender Statistics of Uzbekistan](#) (accessed 28 January 2021).

ⁱ World Bank. 2019. [Enterprise Surveys](#). Washington, DC.

^j ADB. 2018. [Uzbekistan Country Gender Assessment Update, December 2018](#). Manila.

^k Woman-owned or -led enterprise is defined as ≥ 51% owned by a woman or women, or ≥ 20% owned by a woman or women, and (i) has ≥ 1 woman as chief executive officer or president (i.e., senior-most executive) or chief operating officer or vice-president (i.e., second-most-senior executive); and (ii) has ≥ 30% of the board of directors composed of women, where a board exists.

^l ADB. 2010. *Second Small and Microfinance Development Project*. Manila. ADB. 2013. *Republic of Uzbekistan: Small Business and Entrepreneurship Development Project*. Manila. ADB. 2016. *Republic of Uzbekistan: Small Business and Entrepreneurship Development Project*. Manila. ADB. 2016. *Republic of Uzbekistan: Horticulture Value Chain Development Project*. Manila.

Source: Asian Development Bank.