



Initial Poverty and Social Analysis

March 2019

Uzbekistan: Mortgage Market Sector Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS
(as of 18 March 2019)

Currency unit	–	Uzbek sum (SUM)
SUM1.00	=	\$0.0001169
\$1.00	=	SUM8,553.33

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
TA	–	technical assistance
UMRC	–	Uzbekistan Mortgage Refinancing Company

NOTE

In this report, "\$" refers to US dollars, unless otherwise stated.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Uzbekistan	Project Title:	Mortgage Market Sector Development Program
Lending/ Financing Modality:	Sector Development Program	Department/ Division:	Central and West Asia Department/Public Management, Financial Sector and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed program supports the Government of Uzbekistan's development objective under the Strategy for Actions for 2017–2021, particularly priority areas #1 and #3. The strategy's five priority areas call for (i) improving the system of state and public construction; (ii) ensuring the rule of law and further reforming the judicial system; (iii) promoting economic development and liberalization; (iv) developing the social sphere; and (v) striving for security, inter-ethnic harmony, and religious tolerance as well as implementing a balanced, mutually beneficial, and constructive foreign policy.

The proposed program, to be structured as a sector development program, was incorporated in the lending program for 2018 of the Asian Development Bank (ADB) under the country operations business plan, 2018–2020 for Uzbekistan. Furthermore, ADB's country partnership strategy (CPS), 2012–2016^a for Uzbekistan recognizes the current challenges to broad-based and inclusive economic development and the high levels of socioeconomic inequality. The private sector remains underdeveloped, as reflected in the housing segment, and its development is constrained by an underdeveloped finance sector and limited access to finance. The proposed program is consistent with the CPS support to inclusive economic growth by improving access to finance (one of the five priority areas of the CPS, 2012–2016) and facilitating the development of the housing industry with a strong potential impact on the achievement of the government's social development objectives.

B. Poverty Targeting

- General Intervention
 Individual or Household (TI-H)
 Geographic (TI-G)
 Non-Income MDGs (TI-M1, M2, etc.)

Inclusive design features will be incorporated in the program through the development of lending covenants for the proposed Uzbekistan Mortgage Refinancing Company (UMRC), which will include eligibility criteria for participating financial institutions (PFIs) and their onlending operations, and introduction of risk-sharing arrangements to help expand access to commercial mortgage finance. These will serve as incentives for PFIs to meet the lending needs of underserved market segments, backed by appropriate risk management tools and capacity, strict application by PFIs of prudential regulatory requirements, and appropriate supervision and compliance monitoring.

The intervention will also introduce policy reforms of the existing housing subsidy programs as well as the legal and regulatory framework for housing finance in the country. These efforts are expected to contribute to the provision of more targeted—pro-poor—housing assistance initiatives that benefit low- and middle-income borrowers.

C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** Key sector issues include constrained access to affordable housing and a disproportionate financial burden on lower- and middle-income households, the emerging issue of substandard living conditions affecting both urban and rural populations, and the high cost of housing finance (both on the demand and supply side). The program will seek to strengthen the weakest links in the housing ecosystem to support the broad-based development of the market, which will benefit underbanked households as well as market participants such as financial institutions, construction developers, and individual housing developers that are currently driving housing production in Uzbekistan. The program will improve lending conditions in the housing industry with a focus on market growth and stability, and support policy actions to strengthen an enabling policy, legal, and regulatory environment.
2. **Impact channels and expected systemic changes.** The program will tackle key market constraints such as the unavailability and/or the high cost of long-term financing for financial institutions, which makes borrowing very difficult for both individual borrowers and housing developers. Other constraints are the limited scope for de-risking housing finance and the absence of lending products adjusted to different borrower risk profiles, which led to credit rationing based on the equity participation of borrowers (thereby excluding lower-income and lower middle-income households from access to credit). The program intervention will serve to lower borrowing costs and incentivize PFIs to lend to underserved market segments (both on the demand and supply side)—further enabling market growth and improving access to affordable housing as supply begins to meet demand.

3. **Focus of (and resources allocated to) transaction technical assistance or due diligence.** Initial ADB technical assistance (TA) support produced a study of housing subsidies and a review of demand and supply issues and identified housing affordability thresholds. In addition, the TA consultants will conduct wide-ranging consultations with lending institutions, households, and other key stakeholders, to gain a granular understanding of issues related to access to credit.
4. **Specific analysis for policy-based lending.** By enhancing the availability of credit and optimizing its cost, it is expected that private sector investment in housing will increase, which will generate jobs for skilled and unskilled labor, and improve housing affordability as market prices stabilize. Short- to medium-term transmission channels will be progressive expansions of the mortgage finance market, which will benefit underserved market segments. The intervention will have a broad impact on inclusive growth, and an indirect impact on poverty reduction.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this program? – Gender differences in the impact of poor access or quality of housing and basic services lead to exacerbation of other dimensions of poverty (e.g., disproportionate impact on women’s productivity and earnings potential). This is compounded by a lack of gender perspective on human settlement and infrastructure planning, which has long-lasting implications for women’s economic opportunities and empowerment. Any potential gender differences in access to formal housing credit also need to be studied.
2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women’s access to and use of opportunities, services, resources, assets, and participation in decision making?
 Yes No Please explain.
 Gender analysis will be conducted as part of the poverty and social analysis under the program’s due diligence. Gender actions will be incorporated in the design and implementation of the program and reflected in a gender action plan. The gender action plan will include streamlining of gender dimensions in policy actions pursued under the program.
3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No
4. Indicate the intended gender mainstreaming category:
 GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. **Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.** Key stakeholders of the program are urban and rural residents, market participants (financial institutions, construction and small-scale housing developers), and the government (both national entities and local government). Supply- and demand-side analysis of the housing finance market was conducted by the small-scale TA consultants. The report identified the need to reform the current state housing finance subsidy programs.
2. **How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?** The contribution of stakeholders and beneficiaries will be critical to identifying housing affordability thresholds and market needs. Underserved market segments will be represented in stakeholder consultations to ensure effective targeting of the program’s intervention and policy actions to improve the housing ecosystem.
3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?
 Information generation and sharing (M) Consultation (M) Collaboration (N) Partnership (N)
 Civil society organizations will be identified during preparation of the program, with the objective of deepening granular understanding of housing market deficiencies and needs of underserved segments.
4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No Please explain.
 Inclusive development of the formal housing industry will be pursued through the introduction of lending covenants for the proposed UMRC, recommendations for rationalization of government subsidies, and other policy developments for broad-based market development supported under the sector development program. The program will not address the micro-lending needs of poor households, given its focus on the role of the financial services industry in growing the housing market, but will strive to support pro-poor reforms to the enabling environment as part of the policy-based lending intervention.

IV. SOCIAL SAFEGUARDS

- A. **Involuntary Resettlement Category** A B C FI

<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No ADB proceeds will be used strictly in accordance with loan covenants that restrict onlending by UMRC to PFIs to projects rated category C for involuntary resettlement. The adoption of an environmental and social management system, at the levels of UMRC and participating institutions, will serve to monitor compliance.</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No ADB proceeds will be used strictly in accordance with loan covenants that restrict onlending by the proposed UMRC to PFIs to projects rated category C for indigenous peoples. The adoption of an environmental and social management system, at the levels of UMRC and participating institutions, will serve to monitor compliance.</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
<p style="text-align: center;">V. OTHER SOCIAL ISSUES AND RISKS</p> <p>1. What other social issues and risks should be considered in the project design? <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? – Not applicable</p>
<p style="text-align: center;">VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</p> <p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during the transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and preparing a participation plan during the transaction TA or due diligence? There is no need for a social and gender specialist to be provided under a knowledge support TA.</p>

^a The country partnership strategy (CPS), 2012-2016 is still valid until the new CPS 2019-2023 has been approved. Source: Asian Development Bank.