



Initial Poverty and Social Analysis

Project Number: 55179-001
December 2022

Uzbekistan: Uzpromstroybank Senior Convertible Loan for Micro, Small and Medium-sized Companies and Bank Transformation

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CURRENCY EQUIVALENTS

(as of 2 December 2022)

Currency unit	–	sum (UZB)
UZB1.00	=	\$ 0.0000888442
\$1.00	=	UZB 11,255.6600

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
ESMS	–	Environmental and Social Management System
MSME	–	micro, small, and medium-sized enterprise
WMSME	–	women-owned micro, small, and medium sized-enterprise

NOTES

- (i) The fiscal year (FY) of Uzpromstroybank ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Uzbekistan	Project Title:	Uzpromstroybank Senior Convertible Loan for Micro, Small and Medium-sized Companies and Bank Transformation
Lending/Financing Modality:	Financial Intermediary	Department/ Division:	Private Sector Operations Department/ Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Uzbekistan embarked on market reforms since 2017 to improve lives of its citizens and to create an enabling environment for businesses. However, lack of effective financial intermediary facilities, high cost of funds, and administrative hurdles still hinder private investment. Business development services that are essential to nurturing micro, small- and medium-sized enterprises (MSMEs) are limited^a. The proposed project contributes to the Uzbekistan Country Partnership Strategy in the following strategic areas: (i) supporting private sector development and (ii) reducing economic and social disparities by supporting finance sector development in providing financing to MSMEs. In particular, the strategy identifies the non-sovereign operations to provide support to financial institutions in boosting lending to MSMEs.

B. Poverty Targeting

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

The senior loan of up to \$50 million loan will support the commercial transformation of Uzpromstroybank (Uzprom). All proceeds of the loan will be used for on-lending to MSMEs supporting Uzprom's diversification of its product mix as part of its transformation strategy. MSME lending is expected to be enhanced from a mainly collateral-based lending model to incorporate cash-flow based analysis. Uzprom is also expected to make its MSME lending process more expedient.

C. Poverty and Social Analysis

1 Key issues and potential beneficiaries. MSMEs make significant contributions to the Uzbek economy accounting for 95.3% of legal entities in 2019 and providing 74.4% of employment^b, 22.3% of exports and 48.7% of imports in 2021.^c Despite increasing numbers (from 13.3 MSMEs per 1,000 people in 2019 to 16.5 in 2021),^d their share of GDP has declined from 66.8% in 2016 to 54.9% in 2021 as large corporates are expanding faster. Most MSMEs in Uzbekistan identify access to finance as a constraint to success and growth. This is partly due to the state-controlled banking sector, which historically served economic sectors prioritized by the government leaving limited financial intermediation for MSMEs. The main potential beneficiaries of this project are Uzprom, its employees, as well as MSMEs that will be able to access loans. Uzprom's commercial transformation will support the transition from lending to major corporations and state-owned enterprises to private sector-led growth focusing on under-tapped retail and MSME markets.

2. Impact channels and expected systemic changes. The loan will be used for MSME on-lending, a sector in need of long-term funding in Uzbekistan. This sector will in return support Uzprom's transformation process into a universal commercial bank. Uzprom's future privatization will pave the way for other local banks to adopt some of the best practices promoted by Uzprom which will lead to an increase of private sector share in the financial sector. The proposed project is also expected to support Uzprom's gender policies and increase financial inclusion of WMSMEs.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence will focus on reviewing Uzprom's portfolio on loans, including to MSMEs. ADB will also evaluate the loan approval process and the procedure to determine the environmental and social (E&S) impacts and check the compliance of prospective borrowers with applicable national laws, including the labor code. Uzprom has an existing environmental and social management system (ESMS) and a number of internal policies to promote social safeguards. These will be enhanced to develop a more detailed ESMS aligned with ADB Safeguards Policy Statement 2009. Due diligence will also assess the capacity of the bank to manage and monitor the post-approval E&S impacts and required compliance of each transaction, including adherence to the internationally recognized core labor standards. The review will also seek synergies with other international lenders' recommendations in supporting the transformation of the Uzprom's ESMS.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?
Key gender issues for the project stem from low and unequal women's economic participation in Uzbekistan and limited access to finance. The labor force participation rate remains lower for women (52%) compared to men (79%).

^e The labor market follows gender segregation patterns by sector, and women are notably underrepresented in high-level decision-making positions in all sectors. Gender stereotypes related to women's behavior and social roles significantly influence young women's opportunities in education and in the selection of a field for future career development. ^f Gender discrimination against women in recruitment practices is tangible in Uzbekistan. ^g As for women's access to finance, the financing gap for women-owned/led MSMEs (WMSMEs) is estimated at \$2.7 billion. A major impediment to women starting and growing businesses in Uzbekistan is the lack of access to finance. ^h In 2017, loans for Uzbek women represented only 2.5% of total bank loans. ⁱ Loan access remains challenging because real estate and vehicles remain the main accepted collateral in financial institutions and most real estate is owned and registered to men, whereas women make up less than one-third of all borrowers. Among the main barriers to accessing loans are gender stereotypes in lending, fear of nonperforming credit terms, underemployment and insufficient salaries for creditworthiness, and lack of knowledge of banking systems.^j

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making? Yes No

Gender mainstreaming entry points for the project will be considered to promote gender equality in accessing financing and women's empowerment in the financial sector. Gender due diligence will look at gender design features to further expand access to credit for women borrowers and to improve on the company's gender equality responsiveness in its work environment.

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 EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design. The main stakeholders of the proposed project are Uzprom's management team, its employees, contractors/suppliers and MSME/WMSME borrowers. Due diligence will include communication with Uzprom's credit, risk management, and E&S teams. Information that Uzprom will share will be the basis for recommending E&S aspects in the project design.

2. Who are the key, active, and relevant CSOs in the project area? Due diligence will confirm Uzprom's engagement with CSOs. However, given the design of the proposed project, there is limited opportunity for participation among stakeholders and CSOs.

3. Are there issues during project design for which participation of the poor and vulnerable is important?
 Yes No

4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues? Due diligence will determine the need for Uzprom's borrowers and CSOs' participation during project design.

5. What level of CSO participation is planned during the project design?

L Information generation and sharing NA Consultation NA Collaboration NA Partnership

IV. SOCIAL SAFEGUARDS

- A. Involuntary Resettlement Category** A B C FI (treated as C)

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

Due diligence will further confirm if Uzprom's on-lending operations and business activities of MSME borrowers entail involuntary resettlement impacts. However, Uzprom is not expected to fund MSMEs that will have recourse to expropriation measures. ADB will review the existing systems and processes of the bank to screen and review potential involuntary resettlement impacts of the borrower's business activities. The proposed project will also exclude any IR Category A and B activities.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix

<input type="checkbox"/> Environmental and social management system arrangement	<input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)	
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	
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 Uzprom is not expected to fund MSMEs that entail impacts on Indigenous Peoples and involve commercial development of indigenous knowledge and cultural resources, and acquisition of traditionally owned lands. The proposed project will also exclude any IP Category A and B activities.	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Not applicable.	
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 type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None	
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment (L) <input checked="" type="checkbox"/> Adhering to core labor standards (L) <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 _____	
2. How are these additional social issues and risks going to be addressed in the project design? Due diligence will review Uzprom's performance with respect to compliance with local labor laws and the internationally recognized core labor standards. This review will cover both, the Uzprom's labor management procedures and policies as well as their ability to ensure labor compliance in its portfolio pertaining to use of ADB proceeds.	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during 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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence? ADB staff will conduct due diligence on social safeguards and other social dimensions. The due diligence will focus on documents review and online interviews and conferences with the client and relevant stakeholders due to the COVID-19 pandemic.	

Source: Asian Development Bank.

- ^a ADB. 2019. Country Partnership Strategy Uzbekistan, 2019-2023 Supporting Economic Transformation
- ^b The State Committee of the Republic of Uzbekistan. Press Service. Committees News. 2019. Enterprises and Organizations with the Status of Legal Entities. P. 16. 14 June 2019. Accessed 12 October 2022. Tashkent, Uzbekistan.
- ^c The State Committee of the Republic of Uzbekistan. Open Data. Small Businesses and Entrepreneurship. Share of Small Businesses and Private Entrepreneurs. Tashkent. Uzbekistan. Accessed 12 October 2022.
- ^d The State Committee of the Republic of Uzbekistan. Socioeconomic Status of the republic of Uzbekistan. IX. Small Businesses. P.252. Accesses 12 October 2022. Tashkent, Uzbekistan.
- ^e World Bank Database. [Labor force participation rate – Uzbekistan](#). (last accessed 18 October 2022)
- ^f Asian Development Bank (ADB). 2018. [Uzbekistan Country Gender Assessment Update, December 2018](#). Manila.
- ^g World Bank. 2021. [Gender Discrimination in Hiring - Evidence from an Audit Experiment in Uzbekistan](#). Washington D.C.
- ^h State Committee on Statistics. [Gender Statistics of Uzbekistan](#) (last accessed on 18 October 2022).

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- ⁱ D. Tadjibaeva. 2019. Small and Medium-Sized Enterprise Finance in Uzbekistan: Challenges and Opportunities. *ADB Working Paper Series*. No. 997. Tokyo: ADBI.
- ^j ADB. 2018. [Uzbekistan Country Gender Assessment Update, December 2018](#). Manila.