

FRAMEWORK FINANCING AGREEMENT
Uzbekistan: Housing for Integrated Rural Development Investment Program

Parties

This Framework Financing Agreement ("FFA") dated 29 July 2011 is between the Republic of Uzbekistan ("Uzbekistan") and Asian Development Bank ("ADB").

MFF Investment Program

Uzbekistan is committed to, and will implement, the Housing for Integrated Rural Development Strategy, a multisector strategy and roadmap for achieving more inclusive growth through improved rural living standards and livelihood opportunities. Under the Strategy, increased access to improved rural housing and an improved investment climate serve as a catalyst for improving living conditions and creating new job and livelihood opportunities in rural areas. The Housing for Rural Development Investment Program (Program) helps the government to implement the Strategy. The Program, proposed as a multitranche financing facility (MFF), comprises a series of financial intermediation loans to help finance affordable housing loans to purchase new modern rural housing for moderate to lower income borrowers, including young families and first-time homeowners, teachers and health care workers (two occupations in which women predominate), and other skilled professionals (targeted beneficiaries) under the government's Rural Housing Scheme (2011–2015) (RHS).¹ The MFF also supports improved capacity of local governments (*hokimiyats*) to implement integrated rural development plans and investment promotion strategies that focus on creating rural jobs, and strengthening the enabling environment for rural micro and small enterprises (MSEs). The Program is described in Schedule 1 attached hereto.

The total cost of the Program, over the period 2011 to 2015, is estimated at \$3,054.5 million equivalent.

Multitranche Financing Facility

The Multitranche Financing Facility ("Facility") implemented through a series of financial intermediation loans (Projects) is intended to finance rural housing loans and capacity development under Output One of the Investment Program, provided that such subloans comply with the criteria set out in Schedule 4 hereto and that the understandings set out in this FFA are complied with.

The proceeds of the financial intermediary loans (Projects) will be relent by the government to participating commercial banks ("PCBs"), which will onlend housing loans (i.e., subloans) to qualified individuals (i.e., subborrowers) for purchase of rural houses under the RHS (i.e., qualified subprojects).

This FFA does not constitute a legal obligation on the part of ADB to commit to financing. At its sole discretion exercised reasonably, ADB

¹Selection criteria, including income thresholds and beneficiary targets, are detailed in the Facility Administration Manual (FAM) (linked document 2).



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has the right to deny financing requests by Uzbekistan, cancel the uncommitted portion of the Facility, and withdraw Uzbekistan's right to request a financing tranche under the Facility. Financing tranches may be made available by ADB provided that matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Uzbekistan to request financing. Uzbekistan has the right not to request financing under the Facility. Uzbekistan also has the right at any time to cancel any uncommitted portion of the Facility.

Uzbekistan and ADB may exercise their respective rights to cancel the Facility or any committed portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties to this FFA. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for rural housing loans and capacity development under Output One of the Investment Program is summarized below:

Financing Source	Total (\$ million)	Share (%) of Total
Asian Development Bank	500.0 ¹	21.6%
Participating commercial banks	986.3 ²	42.5%
Subborrowers	833.5 ³	35.9%
Total	2,319.8	100.0%

¹ Of the total \$500 million lent to Uzbekistan, \$499 million will be relent to PCBs for subloans to qualified individual subborrowers, and \$1 million will support capacity development under the Program.

² Includes \$3.4 million for capacity development, and \$450 million in concessional government financing (\$90 million annually) provided by the government for the RHS.

³ In the form of down payments of at least 25% of the house price provided by qualified individual subborrowers.

Financing Terms

ADB will provide loans, as available, to finance financial intermediary loans under the Program as and when they are ready for financing, provided that Uzbekistan is in compliance with the understandings hereunder and the financial intermediary loans are consistent with these understandings. Each financial intermediary loan under the Facility will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project in question, capital market conditions, and ADB's financing policies, all of which are prevailing on the date of signing the legal agreements for such tranche.



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Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche(s).

Amount

The maximum financing amount available under the Facility is \$500 million equivalent. It will be provided in individual tranches from ADB's ordinary capital resources,² subject to availability and allocation under ADB's applicable policies and procedures, as in effect from time to time.

Availability Period

The last financing tranche is expected to be executed no later than 30 June 2016. The last date on which any disbursement under any tranche may be made will be 31 December 2016.

Terms and Conditions

Uzbekistan will cause the proceeds of each tranche to be applied to the financing of the Program, in accordance with conditions set forth in this FFA and the relevant legal agreements for each tranche.

Execution

The Ministry of Economy will be Executing Agency and will be responsible for overseeing the implementation of the Program.

Periodic Financing Requests

Uzbekistan may request ADB, and ADB may agree, to provide loans under the Facility to finance the Program upon the submission of a Periodic Financing Request ("PFR"). Each PFR should be submitted by Uzbekistan. Uzbekistan will make available to the PCBs the proceeds of the loan in accordance with the related PFR and the legal agreements for the tranche.

ADB will review each PFR submitted under this Facility and, if found satisfactory, prepare the related legal agreements.

The projects for which financing is requested under each PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents as specified in the FAM. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the FAM agreed

² Provisions of the "Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans made from ADB's Ordinary Capital Resources", dated 1 July 2001, will apply to each loan subject to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).




between Uzbekistan and ADB.

Until notice is otherwise given by Uzbekistan, the Ministry of Economy will be Uzbekistan's authorized representative for purposes of executing PFRs.

General Implementation Framework

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto. More details on the implementation arrangements concerning the Facility are set forth in the FAM.

Procedures

Each tranche to be provided under the Facility will be subject to the following procedures and undertakings:

- (a) Uzbekistan will have notified ADB of a forthcoming PFR in advance of the submission of the PFR;
- (b) Uzbekistan will have submitted a PFR to ADB in the format agreed with ADB;
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche; and
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR Information

Each PFR submitted under the Facility will substantially be in the form attached hereto and will contain the following details:

- (i) Loan amount;
- (ii) Description of Projects to be financed;
- (iii) Related cost estimates and financing plan;
- (iv) Implementation arrangements specific to the Projects in question;
- (v) Confirmation of the continuing validity of and adherence to the provisions of this FFA;
- (vi) Confirmation of compliance with the provisions under previous legal agreement(s); and
- (vii) Other information as may be required under the FAM or reasonably requested by ADB.

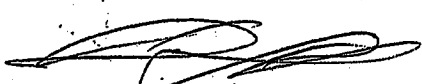
Safeguards

Attached as Schedule 5 are references to the Safeguard Framework that will be complied with during the implementation of the Facility.

ADB safeguard policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the Project financed under such financing tranche.

Procurement

All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2010, as amended from time to time).



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Consulting Services

All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time).

Disbursements

Under the Facility, loan tranches will be agreed based on PFRs. Disbursements for each tranche will be based on effective subsidiary loan agreements between the government and PCBs, and made in accordance with the conditions of disbursement in the relevant loan agreement and in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time).

**Monitoring,
Evaluation, and
Reporting
Arrangements**

Within 3 months of the effective date of the legal agreement for the first Project financed under the Facility, Uzbekistan will establish a Results Based Program and Reporting Performance Monitoring System (RBPRPMS) in form and substance acceptable to ADB. Within 3 months of the effective date of the legal agreement for subsequent tranches, the RBPRPMS will be reviewed, updated and enhanced in close coordination with ADB. The RBPRPMS will select a set of results-based monitoring indicators relating to disbursement of subloans, including those in the Design and Monitoring Framework. Uzbekistan will update ADB on the progress against each indicator on a quality basis. ADB will field review missions as required to discuss the progress of the Investment Program under each tranche, any changes in the implementation arrangements or remedial measures that are needed to achieve the overall objectives of the project and overall Investment Program.

Schedule 2 hereto sets as the Design and Monitoring Framework for the Facility, against which the implementation effectiveness will be evaluated.

Undertakings

Attached as Schedule 6 are the undertakings provided by Uzbekistan.

THE REPUBLIC OF UZBEKISTANBy 

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SCHEDULE 1

MFF CONSTITUENTS

A. Strategic Context

1. While Uzbekistan has achieved substantive gains in gross domestic product (GDP) growth (8.5% in 2010) led by services (13.2%), industry (8.3%), and agriculture (7.1%),³ rural living standards continue to lag those in urban areas. An estimated 71.7% of the poor live in rural areas and rural poverty (22.2% in 2009) is decreasing at a slower pace than urban poverty (15.2% in 2009) (Table 1).⁴ Poor employment opportunity (including lower wages)⁵ in rural areas is one of the main factors lowering rural living standards.⁶

Table 1: Rural Poverty Rate, 2001–2009 (%)

	2001	2003	2005	2007	2009
Urban	22.5	22.6	18.3	17.6	15.2
Rural	30.5	29.8	30.0	27.1	22.2

Source: Survey of Households (2001–2009), State Statistics Committee.

2. **Diversifying rural livelihoods.** Job opportunities have not kept pace with increases in the working age population (from 54% in 2001 to 61% in 2007),⁷ and higher population growth in rural areas, where around 50% of those formally employed work in the agriculture sector (footnote 3). Rural employment is pressured by the release of agricultural workers as a result of ongoing market reforms.⁸ About 40% of the rural labor force is engaged in informal employment, with a high level of seasonal jobs (footnote 5). Due to the lack of sufficient rural non-farm opportunities, it is difficult to absorb retrenched or new labor market entrants. Educated professionals with marketable skills, particularly the young, are migrating to urban areas and abroad.

3. To provide increased rural non-farm livelihood and job opportunities, the government is promoting development of a more diversified private sector with a focus on small businesses. Currently, micro and small sized enterprises (MSEs) support over 50% of rural jobs nationwide.⁹ In rural areas, MSEs are engaged in agricultural production and processing, construction, transport, retail, and personal services.

4. **Improving rural living standards.** Insufficient rural housing lowers rural living standards. Most rural housing dates from the Soviet period,¹⁰ and is occupied by growing extended multigenerational families. While rural areas have access to basic utilities, water and power supply is inconsistent and unreliable.

³ Country Economic Indicators (see linked document 6).

⁴ Summary Poverty Reduction and Social Strategy (see linked document 7).

⁵ UNDP. 2010. *Rural Economic Development*. Policy Brief No. 2 (15). Tashkent.

⁶ Center for Economic Research and UNDP. 2005. *Family Assets Mobilization*. Tashkent.

⁷ Center for Economic Research and UNDP. 2010. *Addressing Urban Poverty in Uzbekistan in the Context of the Crisis*. Tashkent.

⁸ Estimated to lead to a decline in agricultural employment from 3 million workers in 2009 to 2 million by 2025. Center for Economic Research. 2009. *Urbanization and Industrialization in Uzbekistan: Challenges, Problems and Prospects (draft paper)*. Tashkent.

⁹ Discussions with the Head of the Chamber of Commerce in Khorzhem Province.

¹⁰ Republic of Uzbekistan. 2007. *Welfare Improvement Strategy of Uzbekistan: Full Strategy Paper for 2008–2010*. Tashkent. In Uzbekistan, 98% of families live in their own houses, two-thirds of which are located in rural areas.

5. Although increasing, the volume of new housing under construction (about 60,000 houses annually) is not keeping pace with population growth (1.5% per year) and the over 200,000 young families and adult-children ready to leave the parental home each year.¹¹ The government estimates that 1.5 million households need new housing or major renovation. Land for constructing houses is in short supply and not readily obtained. Where land is available, single family home construction is mainly undertaken by individuals on their own initiative and built by temporary unregistered construction workers.¹² New rural housing development is constrained by the unavailability of large tracts of land with ready access to basic utilities and is limited to a few independent contractors who build houses on a contract basis. Affordable rural housing finance is rarely available (particularly for women who are typically employed in lower paid sectors and have limited access to collateral). In rural areas, housing is mainly financed from personal savings or informal loans.

B. Housing for Integrated Rural Development Multisector Strategy

6. In accordance with the Uzbekistan Welfare Improvement Strategy 2008-2010 (WIS),¹³ that sets forth the government's strategy for greater inclusive growth and poverty reduction, the Housing for Integrated Rural Development Strategy (Strategy) is the government's multisector strategy and roadmap for improving rural living standards and diversifying rural livelihoods. Under this strategy, the five-year extension of the RHS¹⁴ and the downstreaming of targeting thereunder will be closely coordinated and better integrated with the government Rural Development Program (RDP) and related Financial Sector Development and MSE strategies to leverage synergies and improve outcomes.

7. **Rural Development Program.** The RDP¹⁵ focuses on stimulating rural economic opportunities in agriculture, as well as non-agricultural sectors, and other initiatives to support the creation of rural jobs. The RDP, through the Rural Housing Scheme discussed below, also focuses on improving rural living standards by greater access to new and modern residential housing, basic utilities (energy, water supply and sanitation, and gas), new roads and public transport networks, improved communications, improved social services, and new commercial facilities.

8. **Rural Housing Scheme.** An important element of the RDP is the State Program on Accelerated Development and Construction of Housing and Social Infrastructure in Rural Areas (Rural Housing Scheme or RHS). In addition to enabling improved living standards in rural areas, the RHS is designed to capture household savings for investment in rural construction and rural job creation. Mortgage financing for the acquisition of these houses by rural residents is provided at concessional interest rates. The new modern houses within the well planned communities are designed to help retain skilled professionals and technical specialists in rural areas and offer an attractive alternative to urban migration. Under the RHS, short-term construction employment opportunities are provided for local workers, new business opportunities in connection with new commercial facilities created, and expansion of home-

¹¹ World Bank. 2007. *Housing Finance Development in Uzbekistan*. Technical Note. Washington, DC.

¹² Raising safety issues, particularly in disaster-prone areas.

¹³ See footnote 10. With ADB support, the government is preparing a new WIS for 2013-2015. In the interim, the WIS (2008 to 2010) continues to guide the government's development and investment programs.

¹⁴ In 2010, a five-year extension of the RHS was launched under which an additional 40,800 houses will be built, that will directly create over 40,000 jobs annually in the construction sector. Source: Resolution of the President of the Republic of Uzbekistan, "On Additional Measures to Improve Individual Housing Construction in Rural Areas Based on Model Projects", PP-1354, 17 June 2010.

¹⁵ Resolution of the President of the Republic of Uzbekistan PP-1046 "On the State Program for the Year of Development and Improvement of the Village", 26 January 2009.

based enterprises promoted. Under the five year extension of the RHS, 40,800 additional houses will be built, generating 40,000 construction jobs annually. This Investment Program will support the implementation of the RHS from 2011 to 2015. By 2020, 1 house for every 30 rural families or 100,000 houses are targeted to be constructed under the RHS.¹⁶

9. **Financial Sector Development Strategy.** Accelerating sustainable expansion of the financial sector is a critical objective for sustainable economic growth. Presidential Decree PP-1438¹⁷ outlines a program of measures to strengthen and improve the financial sector (Financial Sector Development Strategy). Priority reform areas are: improving the financial sector legislative framework, strengthening bank supervision (capital adequacy, reserves, credit assessment practices, portfolio risk management), strengthening programs for financial sector skill upgrading including credit appraisal, and expanding the range and increasing the quality of banking and non-bank services (including housing and MSE finance) countrywide. To strengthen access to housing finance, immediate priorities include improvements to laws and regulations governing land use registration and rights, exchange of credit information among lenders, procedures for registration of immovable property and collateral pledges, and public dissemination of data on real estate and housing finance markets.

10. **Micro and Small Enterprise Development Strategy.** MSE development is important to ensure sustainable and inclusive economic growth. In rural areas where MSEs account for 50 to 80% of employment, MSE development will be the main engine for increasing rural employment. As designated by Presidential Decree PP-1474,¹⁸ 2011 is the Year of Small Business and Private Entrepreneurship. The decree launches a program of measures to improve the legal, regulatory, and enabling environment for private sector development and promotes MSE expansion and employment (MSE Program). Priority measures include credit lines, business advisory services, simplified procedures for business registration, increased allocation of land to build manufacturing plants, tax concessions for agro-processing firms, a number of tax concessions for startups in other sectors, demand driven training and vocational education to address skills gaps, and improved banking services in rural areas. From 2011 to 2015, the MSE Program aims to create annually about 695,000 new jobs, of which about 70% will be in MSEs and 30% will be employment in family businesses and home-based enterprises.¹⁹

C. Successes and Challenges

11. To achieve greater inclusive economic growth, the Program is designed to achieve synergies and strengthen the outcome from ongoing strategies and programs that seek to improve rural living standards. Program design focuses on (a) better integrating and leveraging of successful achievements, (b) improving coordination among relevant government agencies, and with the private sector, (c) strengthening local government capacity to implement these programs, and (d) and downstreaming RHS targeting. Public support for housing finance under the RHS encourages the channeling of rural savings and remittances into investment in rural construction. The hiring of local contractors and use of local construction materials is generating

¹⁶ Source: ADB staff estimates, assuming total country population at 27.5 million, of which 64% live in rural areas and each rural family averages 6 persons.

¹⁷ Resolution of the President of the Republic of Uzbekistan, 'On Priority Areas for Reforms and Sustainable Improvement of Uzbekistan's Finance and Banking System'. PP-1438, 26 November 2010.

¹⁸ Resolution of the President of the Republic of Uzbekistan, 'On the State Program for the Year of Small Business and Private Entrepreneurship'. PP-1474, 7 February 2011.

¹⁹ Source: Ministry of Economy

new jobs.²⁰ Modern housing that offers the advantages of a well "planned community" lifestyle incentivizes skilled professionals and potential entrepreneurs to remain in rural areas. Improved rural infrastructure and facilities, which is being provided in conjunction with the RHS, addresses key constraints to MSME development. New homes with reliable access to electricity and water stimulate rural home-based microenterprises and cottage industries.²¹

12. Under the RHS, 7,647 modern new rural houses have been built and the same number of rural mortgages has been provided. Under the RDP, to enable improved planned rural communities, a systematic approach is being undertaken to modernize and renovate rural utility infrastructure for power and gas supply, and drinkable water supply, as well as improve sanitation. Basic utility service lines have been laid in the newly developed residential areas, including more than 70 kilometers (km) of power lines, more than 100 km of gas mains, about 100 km of water mains, and 85 km of access and neighborhood roads. Without such improvements, rural houses and rural MSEs—although served by the national grid and have access to electricity—would continue to have erratic electricity supplies (brownouts), undermining economic opportunities, as well as social outcomes.

13. While the RHS will help address the increasing demand for rural housing, the rural housing market remains nascent. Notwithstanding the expansion of rural housing construction, its development has been ad hoc. Developers remain reluctant to enter the market because of limited access to serviced land. The rural housing finance market is even less developed. In 2009, the size of the overall housing finance market amounted to about 1% of GDP, with less than 10% of real estate deals financed through bank loans. Rural housing is mainly financed from personal savings or informal loans since affordable housing finance is rarely available. The government remains the main player in this market.²⁴ Banks remain reluctant to enter this market given the limited access to long-term credit.

14. While micro, small and medium enterprise (MSMEs) are growing throughout Uzbekistan (from 31% of GDP in 2000 to 52.5% of GDP in 2010), they are not developing at the pace needed to generate sufficient job opportunities in rural areas. While agroprocessing offers significant potential, agroprocessors in rural areas tend to be small, including home-based enterprises. The rural service sector (retailing, wholesaling and trading, transportation, banking and microfinance, and other personal services such as restaurants, hairdressing, and car repairs) is rapidly growing.

15. Needed investment in rural MSEs remains constrained by (i) limited access to credit for long-term investment and working capital, (ii) limited access to land, (iii) erratic power and water supply, (iv) lack of sufficient modern rural housing to attract and maintain skilled professionals, and (v) weak capacity of entrepreneurs in terms of business planning, management, and finance. Uzbekistan's ranking for doing business remains low based on ongoing constraints in starting a business, getting credit, and paying taxes.²⁵ While central and local governments

²⁰ The RHS is an important component of the government's job creation program that is creating more than 950,000 jobs annually, including approximately 600,000 rural jobs.

²¹ Home-based income activities tend to be established by women. Approximately 78% of rural households raise livestock or poultry and 24% use their land to grow products for consumption and sale to generate income (footnote 3). Rural homes also serve as a base for cooperative/contract employment for traditional handicrafts and food products.

²⁴ Government interventions to date detailed in Sector Assessment (linked document 2) and Economic Analysis (linked document 7).

²⁵ See World Bank's Doing Business Indicators (2011). Uzbekistan ranked 150 out of 181 for doing business.

(*hokimiyats*) are strongly committed to development of rural MSEs, *hokimiyats* lack sufficient capacity in investment promotion and integrated development planning.

D. Policy Framework

16. **Multisector strategy and roadmap.** The Program roadmap is underpinned by a policy framework that details priority actions for changes required to address main constraints and critical issues towards achievement of (i) improved access to affordable rural housing and housing finance, (ii) integrated rural development and investment promotion through improved provincial and district *hokimiyat* capacity, and (iii) a strengthened enabling environment for rural MSEs.²⁶ An overview of the critical policy actions is presented in Appendix 1.

17. **Component 1:** Component 1 focuses on strengthening the RHS and expanding access to new modern rural housing, including improved rural infrastructure and services, and affordable housing finance. To support greater downstreaming of the RHS, moderate to low income²⁷ purchasers, as well as young families (and teachers, healthcare, and other skilled workers), will be targeted using transparent selection criteria. Broad public awareness of the RHS and the transparency of the beneficiary selection, pricing, and consumer recourse processes will continue to be improved. House designs will be improved to ensure affordability for the second income quartile, and to incorporate and offer energy efficient improvements that are technically appropriate and cost effective. To support greater private sector participation, the RHS will be opened up to other commercial banks. Tax incentives and concessions will be provided to all PCBs, construction companies and companies supplying construction materials under the RHS. In coordination with implementation of the Financial Sector Development Strategy, rural credit evaluation and portfolio risk management approaches will be strengthened by PCBs, the legal and regulatory framework for housing finance will be improved, constraints to increasing formal financial intermediation will be addressed, and the concessional RHS mortgage interest rate will be phased-out and other options for public support for rural housing (with a focus on lower income) over the longer term explored.

18. **Component 2:** Component 2 focuses on improving integrated development planning and investment promotion at the *hokimiyat* level through improved coordination of the RHS with the RDP and related programs, and the strengthening of *hokimiyat* capacity. Regional investment promotion strategies, and a results (outcome) based investment planning process and reporting framework, together with *hokimiyat* training programs for both, will be developed and implemented.

19. **Component 3:** Component 3 focuses on strengthening the enabling environment for MSEs, and better coordination of the implementation of the RDP with the implementation of the MSE and Financial Sector Development strategies. Business registration, licensing procedures, and reporting requirements will be simplified, the costs of registering/licensing new businesses reduced, and MSE tax burdens lowered. Engagement with the private sector in the implementation of the RDP and the MSE program will be institutionalized and improved. Public awareness of the MSE program will be improved and websites on MSE development will be implemented. Demand-driven business advisory services will be provided to MSE entrepreneurs, and job creation programs, as well as vocational education, skill training and retraining will focus on delivering skills in demand by MSEs. The Financial Sector Strategy will be implemented with

²⁶ Roadmap is presented in supplementary appendix 13.

²⁷ For 2011, targeted low- to moderate-income beneficiaries are households in the second and third income quartile with "formal" annual income ranging from SUM4.275 million (\$2,580) to SUM11.672 million (\$7,044).

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a focus on MSE expansion and investment. Access to finance will be improved with the roll out of \$2.4 billion in credit lines for MSEs.

20. **Capacity development.**²⁸ Capacity development under the Program encompasses a number of critical activities to address institutional, safeguard and technical issues identified under the MFF strategy and roadmap. The Ministry of Economy (MOE) will strengthen intergovernmental coordination to achieve greater integration and synergies of government programs that support rural development. Coordination with the private sector will also be improved. Training programs will be improved to strengthen *hokimiyat* capacity for integrated rural community planning and regional investment promotion strategies. Rural job creation and demand driven skill training and re-skilling programs will be closely coordinated with the private sector and regional investment promotion strategies to generate sustainable rural employment opportunities. A review of global approaches and best practices will be undertaken to determine pragmatic next steps for further enhancement of the MSE enabling environment, and greater expansion of MSEs in rural areas.

21. Opportunities will also be explored to improve the overall impact of the RHS. Studies will be undertaken to evaluate sustainable options for extending public support for housing (particularly for lower income housing), and technically appropriate and cost effective alternative energy and energy efficient options for improving RHS house designs. A study of measures to strengthen government procurement processes and procedures (and the oversight role of the State Committee of Architecture and Construction [SCAC] and other related agencies) will also be undertaken to accelerate development of the rural construction sector. To ensure prudent expansion of rural mortgage portfolios, credit appraisal processes and portfolio risk management procedures and systems of PCBs will be strengthened.²⁹ To assure accountability and continuous improvement of RHS processes and delivery of value for money and quality construction, an annual technical and financial performance audit of the RHS will be undertaken.

E. Investment Program

22. The five-year investment plan under the Program comprises physical and non-physical investments. The total cost is SUM5,197.3 billion (\$3,054.5 million). Physical investments, estimated at SUM5,145.5 billion (\$3,024.1 million), are for rural housing and related infrastructure and services. Non-physical investments estimated at SUM51.8 billion (\$30.4 million) are for overall coordination of the program, capacity building for PCBs and *hokimiyats*, and activities to support strengthening of the MSE enabling environment and job creation. A breakdown of the total investment by main physical and non-physical activity is presented in Table 2.

23. The investment plan, programmed for fiscal year 2011 to 2015, targets the construction of 40,800 new houses; and associated infrastructure (1,707 km of power lines; 2,187 km of water pipelines; 1,714 km of gas pipelines; 1,397 km of access roads; 317 education and health facilities; and 610 community and commercial facilities). The investment plan also targets a number of non-physical investments focused on:

²⁸ Linked document 3 provides further information on capacity development.

²⁹ In addition to PCBs own capacity strengthening programs (for which SUM5.8 billion [\$3.4 million] is allocated for), standardized approaches for credit evaluation and portfolio risk management, in accordance with best practices, will be developed and adopted under the Financial Sector Development Strategy. For the latter, technical assistance support is being considered under ADB TA 7709-REG: Financial Sector Development in Central and West Asia, to enhance CBU (and PCB) training curriculums and support training of the trainers on credit evaluation and portfolio risk management best practices.

- a) improving the implementation of the RHS and strengthening coordination with related strategies;
- b) implementing capacity-building activities targeted to improve rural credit evaluation and portfolio risk management processes and systems of PCBs, and the ability of *hokimiyats* to plan and implement regional investment promotion strategies and integrated community development plans; and
- c) job creation and skill development programs.

Table 2: Total Budget for Housing for Integrated Rural Development, FY 2011–2015

Item	Amount	
	SUM billion	US\$ million
Physical		
1. Rural housing	3,939.4	2,315.4
2. Public infrastructure (Electricity, Water supply, Gas, Access roads)	386.4	227.0
3. Public social services	163.6	96.1
4. Community services	150.9	88.7
5. Commercial services	505.2	296.9
Sub total	5,145.5	3,024.1
Non-Physical		
1. Strengthening coordination of integrated rural development (including the Program Implementation Unit)	1.7	1.0
2. Institution strengthening and capacity building a. Training for <i>hokimiyats</i> for regional business and investment promotion, and integrated community development	3.5	2.0
b. Strengthened participating commercial bank rural credit evaluation and portfolio risk management procedures and systems	5.8	3.4
3. Rural job creation and skill development programs	40.8	24.0
Sub total	51.8	30.4
Total	5,197.3	3,054.5

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

Source: Government estimates.

24. More than 1.2 million rural job seekers will be provided with technical, vocational and skill improvement training annually, of which 40% will be women. In addition, about 530,000 rural jobs and livelihood opportunities will be created annually, 78,000 construction jobs (44,000 from rural housing and 34,000 from rural infrastructure projects), and about 452,000 MSE and home-based livelihood opportunities³⁰ of which 180,000 will be for rural women. Annual targets and investment requirements are detailed in Appendix 2.

F. Financing

25. Expected financing sources for the investment plan are outlined in Table 3. For the total investment plan estimated at SUM5,197.3 billion (\$3,054.5 million), about 26% will be financed by the government,³¹ 16% is proposed to be financed by ADB, and 18%, 13%, and 27% will be financed by the PCBs, the private sector and individual homebuyers, respectively. The MFF will

³⁰ Self-employed entrepreneurs, MSE employees, and contracted home-based jobs by handicraft cooperatives.

³¹ State financing of the RHS is estimated at about 1% of GDP annually. In addition, the cost of the annual foreign exchange risk associated with the proposed ADB loan, is estimated at SUM66 billion (\$17 million) annually over the 15-year term or about 5% of the 2010 government budget (and Fund for Reconstruction and Development) surplus. This estimate assumes an 8% rate of depreciation rate of the SUM against the US\$, and that the proposed ADB loan (\$500 million) is lent to PCBs with the same on-lending terms (i.e., tenure and grace period).

finance a portion of the housing loans under the RHS for the period between 2011 and 2015 as well as the capacity development activities. Such housing loans and capacity development activities are part of Component 1 of the Investment Program.

26. For rural housing, of the total SUM3.94 trillion (\$2.3 billion) required, 64% will be financed by PCB mortgage loans, and 36% will be financed by deposits from the rural homebuyers (deposits are expected to range between 25% to 50% of the total house price). To finance the concessional mortgage interest rates offered under the RHS, the PCBs will be extended a concessional line of credit by the government estimated at SUM1.6 trillion (\$950.0 million), of which SUM849.0 billion (\$499.0 million) is anticipated to be relent from the proposed ADB loan.

Table 3: Total Financing Sources for Housing for Integrated Rural Development, FY 2011–2015

Item	Amount	
	SUM billion	US\$ million
Physical		
1. Rural housing		
→ PCB mortgage loans ^a	2,521.2	1,481.9
→ Rural household deposits	1,418.2	833.5
2. Public infrastructure		
→ Hokimiyat (Water supply, Access roads)	225.9	132.7
→ Utility Agencies (Electricity, Gas)	160.5	94.3
3. Public social services		
→ Central Government	163.6	96.1
4. Community services		
→ Private Sector	150.9	88.7
5. Commercial services		
→ Private Sector	505.2	296.9
Sub total	5,145.5	3,024.1
Non-Physical		
1. Strengthening coordination of integrated rural development (including Program Implementation Unit)		
→ Central Government ^b	1.7	1.0
2. Institution strengthening and capacity building		
a. Training for provincial and district hokimiyats for regional investment promotion, and integrated community development	3.5	2.0
→ Central Government ^c		
b. Strengthened PCB rural credit evaluation and portfolio risk management procedures and systems	5.8	3.4
→ PCBs ^d		
3. Rural job creation and skill development programs	40.8	24.0
→ Central Government		
Sub total	51.8	30.4
Total	5,197.3	3,054.5

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

^a To be financed by concessional government credit lines to PCBs (including proposed ADB loan financing of \$499 million).

^b Proposed ADB loan financing of \$1 million.

^c Includes state funding estimated at SUM2,970 million (\$1.77 million) for hokimiyat training provided by the Academy of State and Social Construction.

^d Includes allocation by PCBs for PCB-RHS management units (20%), PCB capacity building and training (13%), and PCB credit information, and RHS data and reporting systems (67%).

Source: Government estimates.

27. For public infrastructure (electricity, water supply, gas, and access roads), of the total SUM386.4 billion (\$227.0 million) required, 59% will be financed by district hokimiyats and 41% will be financed by utility agencies. Investment required for social infrastructure estimated at

SUM163.6 billion (\$96.0 million) will be financed by the central government. Investment required for community and commercial service facilities, estimated at SUM656.1 billion (\$385.6 million), will be financed by the private sector.

28. Non-physical investments support strategic oversight and continued strengthening of the Program and its close coordination with the RDP and MSE and Financial Sector Development strategies. Of the estimated SUM51.8 billion (\$30.4 million), all but SUM5.8 billion (\$3.4 million) financed by PCBs,³² will be financed by the central government (of which \$1 million is proposed from the ADB loan).

G. Program Implementation by Tranche

29. The government is committed to achieving greater inclusive growth, and diversification of rural livelihoods and improved rural living standards under the Program. With capacity development (as detailed in para 20 and 21 above), and actions under roadmap (presented in Appendix 1), rural economic growth will be supported through expanded access to affordable housing finance and new modern rural housing, including improved infrastructure and services, with a focus on moderate to low-income purchasers (teachers, healthcare workers and other skilled workers, young families), and improving the enabling environment for MSEs.

30. **Tranche 1.** During Tranche 1, the government will institutionalize the targeting of beneficiaries. Public awareness and transparency of the RHS will be improved, along with housing designs (including use of energy efficient options such as solar power where cost effective). Access to improved rural infrastructure and social and community facilities will continue. A program to improve *hokimiyat* capacity for investment promotion and integrated development planning will be developed. The government will implement the MSE strategy to address constraints to MSE development, and coordination with the private sector on the implementation of this strategy, and the RDP will be institutionalized and improved. To help improve access to finance, the government will implement the financial sector strategy approved earlier this year.

31. **Tranche 2.** For Tranche 2, an inventory of non-agricultural land made available for rural housing under the RHS will have been established. Interest rate support for the RHS will be further phased out, the RHS will be open to other commercial banks, and QQI construction material factories will be spun off. Tax incentives and concessions will be provided to all PCBs, construction companies and construction material companies supplying materials for rural housing under the RHS. Training programs for *hokimiyats* to strengthen their capacity for integrated rural planning and development and investment promotion will have been developed and the rollout thereof initiated. The government will have prepared drafts of key legislation to improve the legal and regulatory framework for housing finance and MSEs to address long-term constraints to development. The government will also continue to implement the financial sector strategy, and lower the tax burden of MSEs. Credit lines for rural MSEs will be expanded by banks in Uzbekistan to support greater MSE expansion and investment.

32. **Tranche 3 and 4.** During the third tranche, QQI will be established as an independent legal entity, and the government will explore other options for public support for rural housing over the longer term. During the third and fourth tranches, market interest rates will be phased

³² PCBs budget allocation for PCB-RHS management units, PCB rural lending and portfolio management capacity building and training, and PCB investment for strengthening credit and portfolio information management systems, and RHS data and reporting systems.

in, the government will continue to improve the RHS and related infrastructure, facilities and services. The government will continue to improve *hokimiyat* capacity, and implement the financial sector and new MSE strategies. Key indicators will track the number of new rural houses built and rural mortgages issues, with a focus on ownership by targeted beneficiaries, as well as investment in rural areas, growth in rural MSEs (including the construction sector), and rural jobs created.



Housing for Integrated Rural Development MFF Policy Framework, 2011–2015

A: Improving Access to Affordable Rural Housing and Housing Finance		
Outcome and Actions	Target Indicator	
1. Rural communities have improved living standards	MOE, PCBs - More than 7,000 rural families each year, with a total of 40,800 rural families by 2016, provided with improved rural housing, basic utilities, and social services	
2. Expand access to modern rural housing: 2.1. Extend Rural Housing Scheme (RHS) to 2015 2.2. Improve public awareness of RHS 2.3. Improve RHS by: 2.3.1 Institutionalizing a transparent and objective system for targeting of RHS to creditworthy moderate- to lower-income rural borrowers with a focus on skilled professionals (teachers and healthcare workers), young families, and women; 2.3.2 Improving affordability and energy efficiency of housing designs and implement cost containment measures; and 2.3.3 Improving homebuyers' recourse measures.	MOE, PCBs - More than 7,000 houses built each year, with a total of 40,800 houses built by 2016 of which 100% in 2012 to 2015 meet income criteria, and of which at least 30% in 2012 to 2015 are attributed to women - Annual RHS budget allocation approved by Q4 each year 2012 to 2015 - Annual public information campaigns 2012 to 2015, and launch of RHS website (2012) and online application process (2013) - Study of energy efficient options that are cost effective completed (2012) - Study of construction standards and quality assurance processes completed (2012) - At least one house design affordable to lower threshold of second income quartile rural households offered each year 2012 to 2015 - Annual publication of results-based social report on RHS starting Q4 2011 to Q4 2015	
3. Increase availability of non-agricultural land for rural housing with improved access to basic utilities and services 3.1. Develop residential land inventory 3.2. Increase allocation of land for rural residential housing development 3.3. Implement integrated district community development plans ensuring a) Coordination of access to basic utilities for RHS sites b) Coordination of access to rural social services (schools and health care clinics) for RHS sites	District Hokimiyats; State Committee of Land, Geodesy, and Cadastre; State Committee of Architecture and Construction, Utility Agencies, Ministry of Public Education, Ministry of Health. Residential land inventories developed in 159 districts by Q1 2011, and number of m2 of new residential land added each year (baseline to be established) - Integrated district community development plans developed and under implementation in 35% of total districts by 2013; 70% of total districts by 2014; 100% of total districts by 2015 - More than 7,000 rural families each year, with a total of 40,800 additional rural households, connected to electricity, water and sanitation, and natural gas by 2016 - Number of new/rehabilitated rural schools (and classrooms) completed each year (baseline to be established)	
4. Promote private sector development and competition in rural housing and construction sector (including rural housing development, and construction and construction materials) and enable greater job creation 4.1. Promote open competitive RHS contractor selection process. 4.2. Promote development of rural housing developers by (a) restructuring QQI as an independent legal entity; and (b) opening up RHS to other developers and construction supervision enterprises 4.3. Provide equal incentives to all developers, contractors, construction material suppliers and manufacturers and suppliers participating in the RHS	Hokimiyats, Qishloq Qurilish Invest (QQI), State Committee of Architecture and Construction (SCAC) - More than 40,000 jobs created in the rural construction sector annually - Starting with selection for 2012 contractors, all contracts will be awarded in accordance with ADB's procurement guidelines - Number of contractors participating - QQI established as independent legal entity (2013) - Spin-off QQI construction material companies (2013) - Number of rural housing developers or construction supervision enterprises participating in RHS each year	

A: Improving Access to Affordable Rural Housing and Housing Finance

Outcome and Actions	Target Indicator
<p>5. Improve enabling environment for rural housing finance</p> <p>5.1. RHS to be opened to other commercial banks</p> <p>5.2. Phase-out concessional RHS mortgage interest rate</p> <p>5.3. Improve targeting of public support for the sector.</p>	<p>Central Bank of Uzbekistan (CBU), Participating Commercial Banks (PCBs), Qishloq Qurilish Bank, QQI</p> <ul style="list-style-type: none"> - Scoring and analytical approaches to evaluate creditworthiness of rural clients and procedures for managing portfolio risk for mortgage lending in rural areas adopted (2012) - At least 2 commercial banks (including QQB) participating in RHS by 2013 - Concessional RHS mortgage interest rate phased out 2016: - For Tranche 1 (2012), the weighted average RHS interest rate is approximately 60% of the market mortgage rate (CBU refinancing rate) - For Tranche 2 (2013), the weighted average RHS interest rate is approximately 70% of the market mortgage rate (CBU refinancing rate) - For Tranche 3 (2014) the weighted average RHS interest rate is approximately 80% of the market mortgage rate (CBU refinancing rate) - For Tranche 4 (2015) the weighted average RHS interest rate is approximately 85% of the market mortgage rate (CBU refinancing rate) - Study of options for targeting public support for low income rural housing, with viable options identified and assessed (2013), a viable option/s piloted (2014 and 2015), and assessment of outcome and experience of pilots to support development of strategy to improve targeting of low income households for next phase of RHS
<p>8. Improve institutional framework for rural housing finance with a focus on improved credit information, collateral registration procedures and access to collateral registry, and data on real estate markets and lending.</p>	<p>CBU; Ministry of Finance; Ministry of Justice; State Committee on Land, Geodesy, and Cadastre; State Property Committee; State Tax Committee; Uzbekistan Banking Association; Participating Commercial Banks</p> <ul style="list-style-type: none"> - Increase in commercial banks mortgage loan portfolio from SUM342.5 billion in 2010 by 10% annually from 2011 to 2015 - Number of relevant laws, amendments, regulations and procedures adopted (baseline to be established)
<p>9. Improve access to rural financial services, including mortgage finance</p>	<p>CBU, Ministry of Finance, Participating Commercial Banks</p> <ul style="list-style-type: none"> - Number of minibank branches established in rural villages (with a population >500) annually 2011 to 2015 (baseline to be established) - Amount of rural housing loans annually (2011 to 2015)

B: Strengthening Hokimiyat Capacity	
Outcome and Actions	Responsible Agency, Target Indicator, Timeline
1. Improve hokimiyat capacity for implementing integrated rural development and investment promotion 1.1. Develop results-based investment planning process and reporting framework 1.2. Develop regional investment promotion strategies in close coordination with the private sector 1.3. Develop and implement training program for results-based planning and development, and investment promotion	Ministry of Economy, Hokimiyat - Integrated district investment plans with results-based targets developed and under implementation: In 35% of total districts by (2013); in 70% of total districts by (2014); in 100% of total districts by (2015) - Number of persons trained each year, sex disaggregated
C: Strengthening Enabling Environment for Rural MSEs	
1.1. Develop and adopt action plan for implementing MSE Program 1.2. Simplify business registration and licensing procedures, and reduce cost of registering/licensing new businesses 1.3. Simplify reporting requirements (tax, statistics, other), ease penalties and implement e-filing 2. Reduce tax burden on MSEs	MOE, Ministry of Finance - Number of new MSEs registered each year. - More than 650,000 jobs (70% by MSEs and 30% by home-based enterprises) created annually from 2011 to 2015 Ministry of Finance - Taxes on small business and micro-firms reduced from 7% in 2010 to 6% in 2011
3. Institutionalize public and private sector coordination in implementation of MSE Program	MOE, Chamber of Commerce, key public and private sector stakeholders - RDP and MSE program private sector coordination framework adopted and implementation initiated (2012) - MSE website developed and implemented Q4 2011 - MSE private sector consultation meetings (actual number) held and persons (actual number) attending (sex disaggregated) annually from 2011 to 2015 - MSE website (actual number of visitors) each year from 2011 to 2015
4. Improve entrepreneur and MSE capacity and skills 4.1. Provide demand-driven business advisory services to rural entrepreneurs 4.2. Provide vocational education, skill training, or retraining for skills in demand by MSEs	MOE, Chamber of Commerce Information Centers, MOL - Number of persons trained in rural areas (sex disaggregated) - Approximately 1.2 million annually from 2011 to 2015
5. Increase MSE access to finance	Ministry of Finance, PCBs for MSE Program (See Section A, Action 9, on Financial Sector Development) - Expansion of small business lending by 2.7 times from SUM2.69 trillion in 2010 to SUM7.26 trillion in 2015 - Expansion of micro credit lending by 2.8 times (by commercial banks and non-banking financial institutions) from SUM485 billion in 2010 to SUM1,361 billion in 2015 - Amount of ending to small businesses in rural areas annually (2011 to 2015) (baseline to be established)

Sources:

Presidential Decree No. PP-1046, "On the Year of Development and Improvement of Villages" (Rural Development Program), 26 January 2009;
 Presidential Decree No. PP-1364, "On Additional Measures to Broaden Residential Housing in Rural Areas" (2011-2014), 17 June 2010;
 Presidential Decree No. PP-1438, "On Priorities for Further Reforms and Increase of Sustainability of the Finance and Banking System for 2011-2015, and Achievement of Higher International Rating Indicators" (Financial Sector Development Program), 26 November 2010;
 Presidential Decree No. PP-1474, "On the State Program for the Year of a Small Business and Entrepreneurship" (MSE Development Program), 7 February 2011.

Appendix 2.1: Housing for Integrated Rural Development Investment Plan, 2011-2015

	Units	2011		2012		2013		2014		2015		Total	
		Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million
Housing	Houses	7,400	576,460	10,300	890,631	7,600	729,714	7,700	820,512	7,800	922,077	40,800	3,939,394
Basic Utilities		731	32,148	2,041	99,476	1,458	78,336	1,462	87,732	1,313	88,646	7,005	386,338
Electricity	km.	167	7,558	488	24,489	349	19,454	350	21,644	353	24,239	1,707	97,384
Water supply	km.	237	11,032	644	33,351	427	24,510	460	29,349	419	29,658	2,187	127,900
Gas	km.	179	5,291	505	16,582	387	14,061	364	14,691	279	12,483	1,714	63,108
Access roads	km.	148	8,267	404	25,054	295	20,311	288	22,048	262	22,266	1,397	97,946
Social Services		62	28,339	99	47,925	54	26,462	54	30,070	48	30,787	316.88	163,583
Educational facilities	bldgs.	42	22,649	59	35,348	24	15,946	26	19,175	26	21,285	177	114,403
Rural medical units	bldgs.	20	5,690	40	12,577	30	10,516	28	10,895	22	9,502	140	49,180
Community Services		137	31,300	150	33,036	116	28,378	105	29,064	102	29,138	610	150,916
Community centers	bldgs.	95	29,830	88	30,635	68	26,308	63	27,054	56	26,694	370	140,521
Sports centers	bldgs.	42	1,470	62	2,401	48	2,070	42	2,010	46	2,444	240	10,395
Commercial Services		272	46,931	753	134,709	473	99,353	447	108,228	446	116,021	2,391	505,242
Minibanks	bldgs.	32	2,208	62	4,734	37	3,146	40	3,775	35	3,666	206	17,529
Markets	bldgs.	1	226	18	4,478	15	4,177	13	4,018	15	5,146	62	18,045
Shopping centers	bldgs.	127	26,416	254	58,659	158	40,492	150	42,670	158	49,890	847	218,127
Retail services	bldgs.	71	17,466	233	63,750	164	49,708	167	56,185	148	55,270	783	242,379
Bus stops	bldgs.	41	615	185	3,087	99	1,830	77	1,580	90	2,049	492	9,161
Total: Infrastructure & Service		1,202	138,718	3,042	315,146	2,101	232,529	2,068	255,094	1,909	264,592	10,322	1,206,079
													709

Note: US\$1 = SUM1,701.39 (as of 1 June 2011).

Source: Ministry of Finance, Republic of Uzbekistan.

Appendix 2.2: Housing for Integrated Rural Development Financing Plan, 2011–2015

		2011		2012		2013		2014		2015		Total	
		Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million	Target	SUM million
Units		Housing											
PCB Mortgage Loans (64%)	houses	7,400	576,460	10,300	890,630	7,600	729,714	7,700	820,512	7,800	922,077	40,800	3,939,393
	Loans		368,934		570,003		467,017		525,128		590,129		2,521,211
Household Deposits (36%)			207,526		320,627		262,697		295,384		331,948		1,418,182
													834
Infrastructure and Services													
Central Government													
Social Services	bidgs	62	28,339	99	47,925	54	26,462	54	30,070	48	30,787	317	163,583
		385	19,299	1,048	58,405	722	44,821	748	51,397	681	51,924	3,584	225,846
Hokimiyat	Water Supply	237	11,082	644	33,351	427	24,510	460	29,349	419	29,658	2,187	127,900
	Access Roads	148	8,267	404	25,054	295	20,311	288	22,048	262	22,266	1,397	97,946
Utility-Agencies	Electricity	346	12,849	993	41,071	736	33,515	714	36,335	632	36,722	3,421	160,492
	Gas	167	7,558	488	24,489	349	19,454	350	21,644	353	24,239	1,707	97,384
Private Sector	bidgs	179	5,291	505	16,582	387	14,061	364	14,691	279	12,483	1,714	63,108
		409	78,231	902	167,744	589	127,731	552	137,292	548	145,159	3,000	656,157
Community Services	bidgs	137	31,300	150	33,036	116	28,378	105	29,064	102	29,138	610	150,916
		272	46,931	753	134,709	473	99,353	447	108,228	446	116,021	2,391	505,242
Total		1,202	138,718	3,042	315,146	2,101	232,529	2,068	255,094	1,909	264,592	10,322	1,206,079

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

Source: Ministry of Finance, Republic of Uzbekistan.

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Appendix 2.3: Housing for Integrated Rural Development: Rural Job Creation Programs, 2011–2015

	2011			2012			2013			2014			2015			Total		
	Target 000s	SUM million		Target 000s	SUM million		Target 000s	SUM million		Target 000s	SUM million		Target 000s	SUM million		Target 000s	SUM million	USD million
Job Creation Programs																		
Housing Construction																		
Target: 100% Rural	43.90	478.40		43.90	502.30		43.90	531.00		43.90	555.20		44.00	566.10		219.60	2,633.00	1.55
Public Works																		
Target: 65% Rural	50.10	9.00		52.10	10.40		52.30	13.10		52.40	15.70		52.60	21.00		259.50	69.20	0.04
MSEs																		
Target: 65% Rural; 40% Women	477.80	3,583.50		478.00	3,764.30		478.20	4,124.50		478.50	4,198.80		478.70	4,308.30		2,391.20	19,979.40	11.74
Home-based Enterprises																		
Target: 65% Rural; 40% Women	216.20	432.40		217.10	432.40		217.50	435.00		218.60	437.20		220.00	440.00		1,089.40	2,177.00	1.28
Total	788.00	4,503.30		791.10	4,709.40		791.90	5,103.60		793.40	5,206.90		795.30	5,335.40		3,959.70	24,858.60	14.61
Rural	527.57	3,094.59		529.58	3,236.92		530.10	3,503.19		531.08	3,578.81		532.35	3,666.15		2,650.67	17,079.64	10.04
Women	277.60	1,606.36		278.04	1,678.68		278.28	1,823.80		278.84	1,854.40		279.48	1,899.32		1,392.24	8,862.56	5.21

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

Source: MOL and Social Protection, Republic of Uzbekistan

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Appendix 2.4: Housing for Integrated Rural Development: Rural Skill Development Programs, 2011-2015

	2011		2012		2013		2014		2015		Total	
	Target 000s	SUM million	Target 000s	SUM million	Target 000s	SUM million	Target 000s	SUM million	Target 000s	SUM million	Target 000s	SUM million
Rural Skill Development Programs												
Specialized Professional Education Centers Target: 65% Rural; 40% Women	24.30	0.70	25.00	0.74	25.50	0.78	26.20	0.82	26.20	0.90	127.20	3.94
Vocational Colleges Target: 65% Rural; 40% Women	1,617.90	1,590.80	1,635.70	2,187.30	1,607.40	2,923.30	1,543.30	3,845.10	1,468.30	4,982.00	7,872.60	15,528.50
Skill Improvement Training Target: 65% Rural; 40% Women	292.30	42.00	293.20	55.10	293.60	72.20	294.00	93.60	294.30	121.70	1,467.40	384.60
Total	1,934.50	1,633.50	1,953.90	2,243.14	1,926.50	2,996.28	1,863.50	3,939.52	1,788.80	5,104.60	9,467.20	15,917.04
Rural	1,257.43	1,061.78	1,270.04	1,458.04	1,252.23	1,947.58	1,211.28	2,560.69	1,162.72	3,317.99	6,153.68	10,346.08
Women	773.80	653.40	781.56	897.26	770.60	1,198.51	745.40	1,575.81	715.52	2,041.84	3,786.88	6,366.82
												9.36
												6.08
												3.74

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

Source: MOL and Social Protection, Republic of Uzbekistan

Appendix 2.5: Housing for Integrated Rural Development: Provincial and District Hokimiyat Capacity Building, 2011-2015

	2011		2012		2013		2014		2015		Total	
	Target 000s	SUM 000s	Target 000s	SUM 000s	Target 000s	SUM 000s	Target 000s	SUM 000s	Target 000s	SUM 000s	Target 000s	SUM 000s
Provincial/District Training												
Integrated Rural Development Planning	3.7	27.6	4.1	31.6	4.7	36.4	6.3	42.0	7.4	48.4	26.2	109.3
30% Women												
Investment Promotion Planning	5.5	41.4	6.1	47.4	7.1	54.6	9.4	63.0	11.0	72.6	39.1	164.2
30% Women												
Total	9.2	69.0	10.2	79.0	11.8	91.0	15.7	105.0	18.4	121.0	65.3	273.5
Women	2.76	20.70	3.06	23.70	3.54	27.30	4.71	31.50	5.52	36.30	19.59	82.0

Note: US\$1 = SUM1,701.39 (as of 1 June 2011)

Source: Ministry of Economy, Republic of Uzbekistan

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Rural communities have improved living standards	<p>Average rural household formal income increases from SUM373,650³³ in 2010 to at least SUM816,769³⁴ in 2015</p> <p>At least 75,000 rural construction jobs created annually from 2011 to 2015</p> <p>At least 450,000 rural MSE and home-based jobs created annually from 2010 to 2015</p> <p>At least 40,800 RHS rural houses constructed with access to improved utilities by 2015, from 7,647 in 2010 to 48,447 in 2015</p> <p>At least 177 new/rehabilitated schools near RHS housing sites from 2011 to 2015</p> <p>At least 140 new/rehabilitated rural health clinics near RHS housing sites from 2011 to 2015</p>	Specialized project reports submitted by EA to ADB (with annual updates of funds allocated for Program and Program outcomes achieved)	<p>Assumptions Macroeconomic stability and growth continues on a similar trajectory</p> <p>Government implements MFF roadmap actions and reforms on a timely basis</p> <p>Risks Rural to urban migration continues due to exogenous factors</p>
Outcome Improved rural housing for targeted beneficiaries	At least 95% of 40,800 new rural modern homes under the RHS with access to basic utilities owned and occupied by "targeted" beneficiaries (moderate to low-income households, young families, single-headed households, rural teachers and health workers) (of which 30% are women)	Specialized project reports submitted by EA to ADB	Assumptions Demand for rural housing under RHS by targeted beneficiaries
Outputs			Assumptions
1. Housing loans provided by PCBs to targeted creditworthy subborrowers in rural areas	At least 39,000 with a value of at least SUM2.4 trillion of housing loans provided to targeted beneficiaries, of which 30% are women	Reports submitted by PCBs to ADB	Continuing creditworthiness of the subborrowers over the life of the housing loans
2. Improved capacity of local governments to prepare and implement integrated rural development plans and investment promotion strategies	At least 65,000 staff of local governments trained in integrated rural development planning and investment promotion strategies (sex-disaggregated)	Specialized project reports submitted by EA to ADB	PCBs are interested in increasing housing loan portfolio in rural areas
3. Improved enabling environment for entrepreneurs and MSEs to expand or establish new businesses in rural areas	<p>Total microcredit lending in rural areas increases from SUM485 billion in 2010 to SUM1,361 billion in 2015</p> <p>Number of newly established MSEs in project areas (disaggregated by sex of owner) (baseline to be established)</p> <p>Number (and list) of new or revised policies, regulations, and laws adopted (baseline to be established)</p>	Specialized project reports submitted by EA to ADB (with annual updates of funds allocated for MSE development and MSE outcomes achieved)	Risks Inflation increases construction costs

³³ Source: Ministry of Finance

³⁴ Assumes an annual increase in income of at least 20% in 2011, 2012, and 2013; 15% in 2014; and 10% in 2015.

Activities with Milestones	Inputs
<p>1.1 Government adopts a new gender-sensitive process for identifying, prioritizing and selecting creditworthy targeted beneficiaries (moderate to low-income rural households, and teachers and healthcare professionals) to receive subloans (September 2011) and QQB initiates the broad public awareness campaign to solicit applications for subloans to be disbursed in 2012 (initiate in September 2011).</p> <p>1.2 Government amends RHS contractor selection in accordance with ADB procurement guidelines and adopts amended process for selection of 2012 contractors (September 2011).</p> <p>1.3 District <i>hokimiyats</i>, in coordination with relevant agencies, identify, select and approve land sites for 2012 (August/September 2011), and identify, prioritize, and recommend eligible 2012 subborrowers (September to November 2011).</p> <p>1.4 Provincial <i>hokimiyats</i> undertakes open competitive selection of contractors for 2012 (August to November 2011).</p> <p>1.5 QQB assesses eligible 2012 subborrowers for creditworthiness and approves 10,300 subloans for 2012 (October to December 2011).</p> <p>1.6 ADB conducts due diligence of (a) the selection of 2012 housing sites in accordance with ADB safeguard requirements, (b) the selection process for 2012 subborrowers, and (c) the selection process of 2012 contractors (November to December 2011).</p> <p>1.7 ADB provides an advance of approximately \$150 million, based on the cashflow projection for six months, to Uzbekistan under Tranche 1 (September – October 2011).</p> <p>1.8 MOF provides a loan to QQB in the amount of the local currency equivalent of \$199.6 million (with a first drawdown of \$150 million based on the cashflow projection for six months) under a subsidiary loan agreement (September – October 2011).</p> <p>1.9 MOE (PIU), in close coordination with ADB, develops and adopts implementation plans for:</p> <ul style="list-style-type: none"> a) Capacity development (March 2012) b) GAP (March 2012) c) Integrated and results-based monitoring, evaluation and quarterly reporting framework (for MFF roadmap, Capacity Development, GAP (first Program progress report January 2012). <p>1.10 QQB disburses loans totaling SUM 570.0 billion (\$335.0 million) to eligible subborrowers (January–June 2012).</p> <p>1.11 MOE (PIU), in coordination with ADB, undertakes the first technical-financial performance audit of RHS to evaluate transparency and accountability of amended processes (beneficiary selection, pricing, contractor selection, construction quality assurance) adopted for implementation of 2012, and evaluates value for money and construction quality of RHS houses built in 2009, 2010, and 2011 (initiate in November and completed by end February 2012).</p> <p>1.12 ADB and the government agree on the size of Tranche 2 (April 2012).</p> <p>1.13 ADB conducts due diligence assessment of commercial banks that express interest in participating in Tranche 2 (May 2012).</p> <p>1.14 ADB processes and approves Tranche 2 (December 2012).</p> <p>1.15 MOF provides loans to PCBs in the aggregate amount of the local currency equivalent of the amount of Tranche 2 under subsidiary loan agreements (December 2012).</p> <p>1.16 PCBs disburse loans totaling SUM 467.0 billion (\$274.5 million) to eligible subborrowers (January–June 2013).</p> <p>1.17 Tranches 3 and 4 are prepared and disbursed in accordance with the same procedures as for Tranche 2, January–June 2014 for Tranche 3, and January–June 2015 for Tranche 4.</p> <p>2.1. MOE (PIU), in close coordination with ADB, develops and adopts an implementation plan for HIRD training activities to improve capacity of local governments to prepare and implement integrated rural development plans and investment promotion strategies (March 2012).</p> <p>2.2. Develop training programs for <i>hokimiyats</i> (March 2012)</p> <p>2.3. MOE (PIU) submits semi-annual reports on HIRD local government training programs (first report March 2012).</p> <p>3.1. MOE (PIU), in close consultation with ADB and key stakeholders, assesses main constraints to "rural" MSEs and develops a Program strategy and timebound action plan for strengthening the "rural" MSE enabling environment. (March 2012).</p> <p>3.2 MOE (PIU) submits semi-annual reports on Program MSE activities (first report March 2012).</p>	<p>ADB \$500.0 million</p> <p>PCBs \$535.4 million</p> <p>Subborrowers \$834.0 million</p> <p>Government of Uzbekistan \$797.9 million</p> <p>Private Sector \$386.0 million</p> <p>Total \$3,053.3 billion</p>

ADB = Asian Development Bank, EA = executing agency, GAP = Gender Action Plan, HIRD = Housing for Rural Integrated Development, MFF = multitranchise financing facility, MOE = Ministry of Economy, MOF = Ministry of Finance, MSE = micro, or small-sized enterprise, PCB = participating commercial bank, PIU = project implementation unit, QQB = Qishloq Qurilish Bank, RHS = Rural Housing Scheme

Source: Asian Development Bank

SCHEDULE 3**IMPLEMENTATION FRAMEWORK****A. Implementation Arrangements**

1. The MOE will be Executing Agency and will be responsible for overseeing the implementation of the Investment Program. The implementing Agencies will be MOE and PCBs which will make subloans to qualified subborrowers for qualified subprojects under the Investment Program. Selection criteria for commercial banks, subborrowers, and subprojects are defined in Schedule 4 of the Framework Financing Agreement (FFA).

B. Implementation Period

2. Implementation of the Investment Program is expected to be completed by June 2016.



SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

1. The Multitranche Financing Facility ("Facility") will be implemented through a series of financial intermediation loans (Projects) to finance rural housing loans and capacity development under Output One of the Investment Program.
2. ADB will only finance Projects that are part of the Investment Program as described in Schedule 1, in accordance with the implementation arrangements set forth in Schedule 3, that meet the criteria set forth in this Schedule. To be eligible for financing under the Facility, a proposed Project must provide that:
 - a. the Government will utilize funds borrowed from ADB to make 18-year (including a grace period of 3 years), 3% loans to one or more commercial banks which meet the criteria set forth in paragraph 3 of this Schedule;³⁷
 - b. the PCBs receiving loans under the project will utilize the funds received in accordance with subparagraph (a) above solely to make 15-year (including a grace period of 6 months, and other mortgage terms and conditions specified under the RHS) loans (each such loan, a subloan) to eligible subborrowers (as defined in paragraph 4 of this Schedule 4) who utilize the proceeds of the subloans for eligible subprojects (as defined in paragraph 5 of this Schedule).
3. **PCB Selection Criteria.** Commercial banks participating in a Project financed under the Facility must have:
 - c. experience in mortgage lending;
 - d. branch network that provides financial services to rural areas;
 - e. a risk-based capital adequacy ratio of at least 12%;
 - f. a return on average assets (ROAA) for each of the last two completed fiscal years of at least 0.5%;
 - g. a ratio of non-performing loans (NPLs) in the "loss" category as defined by the Central Bank of Uzbekistan (i.e., new nor bad debts requiring 100% loan loss provisioning) of less than 5%;
 - h. corporate, financial, and governance practices acceptable to ADB;
 - i. adequate credit and risk management policies, operating systems, and procedures; and
 - j. achieved satisfactory results on ADB's integrity due diligence.
4. **Subborrower Selection Criteria.** To be an eligible subborrower under the Facility, the sub borrower must:
 - a. be a citizen, and a resident of a rural area, of the borrower;
 - b. agree to utilize the funds received under a subloan from a PCB solely to finance the acquisition of a new primary residence in a rural area under the RHS; and

³⁷ The Program includes \$1 million to finance capacity building under Output 1.

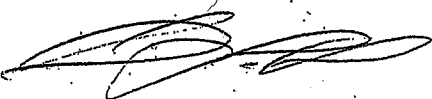



- c. meet the RHS income threshold (to be defined annually as a multiple of the minimum wage) such that all RHS beneficiaries are moderate to low-income households (i.e., are within the second and third income quartiles);
- d. be evaluated and prioritized in accordance with a predefined scoring system to achieve gender-specific beneficiary targets for (i) young families or first-time homeowners, (ii) single head of households, (iii) teachers or healthcare workers, and (iv) other skilled professionals or entrepreneurs.

5. **Eligible Subprojects.** An eligible subproject is the financing of the acquisition of a new house constructed in a rural area under the RHS that is in compliance with ADB safeguards.

6. **Project Approval Procedures.** The approval procedure for each project proposed for financing under the Facility will be as follows:

- i. Uzbekistan will prepare a periodic financing request (PFR) in a form agreed to with ADB to finance such project and submit it to ADB with the project proposal.
- ii. ADB will work with Uzbekistan on the optimal financing structure for the loan and/or other financing products.
- iii. Uzbekistan and ADB will maintain contact through periodic review missions and quarterly progress reports and, in so doing, may affect advanced consultation on PFRs prior to their submission to ADB.
- iv. Subject to availability and allocation under ADB's applicable policies and procedures, and satisfactory compliance with the selection criteria and approval procedures in compliance with ADB's relevant policies, ADB will approve the proposal for the proposed project.




SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Uzbekistan and the PCBs shall ensure that all of the requirements prescribed in this Schedule, the environmental and social management system (ESMS) and the Gender Action Plan (Attachment 1) that are applicable for the facility and the first tranche are complied with during processing and implementation of projects and subprojects under the Facility.

2. The MOE (and the PIU), in close coordination with the PCBs, will prepare a consultation and participation plan ensuring that community awareness campaigns are conducted, and the eligible borrower selection criteria, the selection process, the price setting process and the grievance/complaint process, are broadly advertised.

3. Each PCB is required to have and implement an ESMS that complies with Uzbekistan's labor and environmental legislation and norms and with ADB's Safeguard Policy Statement, 2009 (SPS). Each PCB shall provide adequate staff and budget to support the appropriate implementation and operation of its ESMS. No PCB shall onlend financing provided under the Facility to any subborrower who in turn uses the proceeds to contract a building contractor that engages in any activity listed in the "Prohibited Activities List" (Attachment 2).

4. Each ESMS shall include:

- a) policy and applicable requirements including screening procedures to ascertain that the use of all housing blocks financed by ADB will not trigger the ADB SPS Safeguards Requirements on environment, involuntary resettlement, and Indigenous People (i.e. not have any impact on environment, involuntary resettlement and indigenous people;
- b) procedures (for reviewing housing sites that have been selected and for monitoring housing contractors' compliance with environmental and social norms (health and safety, as well as labor standards);
- c) the "Prohibited Activities List";
- d) institutional arrangements to implement ESMS;
- e) a grievance redress mechanism, and
- f) procedures for reporting and public disclosure.

5. Each mortgage to be provided under the Facility must comply with the following criteria:

- a) the site of the house plot must not be situated in or near an area that has been classified as an environmentally sensitive area by the Regional Nature Protection Committee (Oblkompiroda) or the Geological and Hydrogeological Institute; and the site must have an environmental clearance from the Regional Nature Protection Committee
- b) the site of the house plot must be on land that was classified as reserved land by the local government or administered by state agencies not later than 31 December 2009 for Tranche 1, not later than 31 December 2010 for Tranche 2, not later than 31 December 2011 for Tranche 3, and not later than 31 December 2012 for Tranche 4;
- c) the site of the house plot must be on land approved by the District Hokimiyat for residential use; and



L.

- d) the activities financed under the mortgage will not cause involuntary resettlement or have an adverse effect on Indigenous People, including any adverse effect on any third-party land user of site where the house plot is located.

6. As part of the ESMS process, each PCB will confirm that contractors engaged to construct housing operate in compliance with local labor requirements and core labor standards as outlined in ADB's Social Protection Strategy.

7. During the construction of each subproject, the PCB financing the subproject will:

- (i) monitor the compliance of the contractors with governmental norms on environment, labor, and safety; and
- (ii) coordinate regularly with the Nature Protection Agency of the district in which the subproject is located to quickly identify violations and undertake remedial measures. In addition, the PCB is required to submit an annual monitoring report on the implementation of the ESMS.

8. ADB will periodically review projects financed under the Facility for compliance with ESMSs and the SPS. In case a major noncompliance is discovered, a corrective action plan shall be prepared and agreed with ADB.

9. Prior to the preparation of each PFR, ADB will review (i) the ESMS of each PCB (that is proposed to be included in the loan covered by the PFR) to confirm that the ESMS complies with the requirements set forth in paragraph 2 of this Schedule 5,³⁸ and (ii) other required safeguard documents relevant to the projects to be financed under the loan.

³⁸ ADB has reviewed the ESMS of QQB, the sole PCB for the first tranche of the Facility, and has determined that it is acceptable.



Housing for Integrated Rural Development Investment Program Gender Action Plan (GAP)

Objective	Activity	Indicator	Target Group	Responsibility
Overall Coordination and GAP Implementation				
Improve planning and implementation of EGM activities and increase gender analysis skills of partner government agencies and PCBs	a. Recruit Gender Specialist	(i) Gender Specialist recruited for 2 months	Relevant staff of program partner agencies (including PCBs)	GAD working group and GAP agency/PCB focal points in close coordination with URM Gender Specialist
	b. Identify gender focal points for each partner agency and form GAD working group	(ii) GAD working group formed and quarterly meetings held		
	c. Finalize GAP ¹ in coordination with relevant partner agencies and PCBs	(iii) GAP finalized and initiated		
	d. Conduct gender awareness training for relevant partner agencies and PCBs	(iv) 2 gender training modules developed and 10 training courses (5 offerings of each of 2 modules) conducted [number of participating agencies/PCBs, number of trainees]		
Output 1: Rural Housing Loans				
1. Improve equitable gender representation in the selection process	a. Set quota for women target groups	(i) Sex-disaggregated RHS mortgage applications	District Selection Committees (including Mahalla, NWC District Representatives)	PCB Gender Specialists and PCB RHS Staff
	b. Develop/improve PCB's existing sex-disaggregated database and reporting system.	(ii) Sex-disaggregated database on borrowers/co-borrowers implemented		
		(iii) Sex-disaggregated RHS performance reports prepared and issued		
2. Identify and inform women target groups for housing finance	a. Identify women's target groups eligible for housing loans based on the selection criteria and score/points system agreed with MOE, PCB, NWC, and Mahalla ²	(i) Number and types of outreach activities conducted in the rural communities	Women target groups	MOE District Hokimiyats, Mahallas, NWC District Representatives, PCB Staff
	b. Conduct outreach/information dissemination activities in Mahallas			

¹ ADB URM Gender Specialist will provide initial guidance.

² The selection criteria will be elaborated further in close consultation with QOB, NWC and BWA.

Objective	Activity	Indicator	Target Group	Responsibility
3. Improve/ protect women's property/land ownership rights	a. Promote gender-sensitive credit appraisal, loan signing, and property/land registration ³	(i) Number of co-signed mortgage applications, mortgage agreements, and joint certification of property/land registration	Lawyers (PCBs, Developers, representatives from Lawyer's Association), Women target Groups	PCBs, District <i>Hokimiyats</i> /Land Registration Offices
Output 2. Improved Capacity of Local Governments				
1. Improve gender awareness in integrated rural development planning processes	a. Enhance gender awareness in MOE/MOL <i>hokimiyat</i> training programs for integrated rural development planning b. Using gender-enhanced training curriculums, deliver training on integrated rural development planning and investment promotion strategies	(i) Number of training programs gender-awareness enhanced (ii) At least 30% of <i>hokimiyat</i> staff trained on integrated rural development planning and investment promotion strategies are women	<i>Hokimiyat</i> planning staff	MOE/MOL or other relevant training institute trainers
Output 3: Improved Enabling Environment for MSEs				
1. Improve access of women to MSE livelihood opportunities and MSE finance	a. Conduct rapid needs assessment of entrepreneurial/employment profiles of RHS women borrowers, co-borrowers and household members ⁴ and prepare profile case studies b. Identify and disseminate information on business and job opportunities for women in the project areas ⁵	(i) Needs Assessment Report and at least 1 Case Study per region (ii) Number of information dissemination and/or training program/s on gender-relevant business and job opportunities undertaken annually (iii) Number of women MSE entrepreneurs participating in business and job opportunity training sessions annually	Women borrowers (or co-borrowers) and women household members	MOL, PCB Gender Specialists, NWC District Representatives, <i>Mahallas</i> , Provincial Chambers of Commerce, BWA, and other relevant NGOs

³ To improve gender equality in cases of divorce/family separation, as well as women's access to MSE finance.

⁴ Needs assessment may be undertaken by NWC/NGO. Home purchase and loan applications will be used to collect baseline information.

⁵ A potential counterpart for information dissemination is the "Hunarmand"/Handicraftsmen Association.

Objective	Activity	Indicator	Target Group	Responsibility
	c. Conduct business training modules for RHS women beneficiaries/ entrepreneurs ⁶	(iv) Number of MSE business plans prepared/registered by women annually (v) Number of new MSEs registered by women annually		

BWA = Business Women's Association; EGM = Effective Gender Mainstreaming; GAD = Gender and Development; GAP = Gender Action Plan; Mahalla = local community-based organization (CBO); MOE = Ministry of Economy; MOL = Ministry of Labor; MSE = micro and small enterprises; NGO = nongovernment organization; NWC = National Women's Committee; PCB = participating commercial bank; QQB = Qishloq-Qurilish Bank; RHS = Rural Housing Scheme; TA = technical assistance; URM = Uzbekistan Resident Mission.

Source: Asian Development Bank.

⁶ In accordance with activities under the MOL employment generation program and the NWC National Action Plan.

PROHIBITED ACTIVITIES LIST

In addition to any activity prohibited by law in Uzbekistan, the following do not qualify for Asian Development Bank financing:

- (i) production or activities involving harmful or exploitative forms of forced labor¹ or child labor;²
- (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans, such as (i) pharmaceuticals,³ pesticides, and herbicides,⁴ (ii) ozone-depleting substances,⁵ (iii) polychlorinated biphenyls⁶ and other hazardous chemicals,⁷ (iv) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,⁸ and (v) transboundary trade in waste or waste products;⁹
- (iii) development, production, repair, or purchase of or trade in weapons and munitions, including paramilitary materials;
- (iv) production of or trade in alcoholic beverages;¹⁰
- (v) production of or trade in any product containing tobacco, packed in consumer package and designed for end-user with the exception of pharmaceutical product containing nicotine (Footnote 13);
- (vi) business activities related to organizing and carrying out gambling, casinos, and equivalent enterprises (Footnote 13);
- (vii) production of or trade in radioactive materials,¹¹ including nuclear reactors and components thereof;
- (viii) production of, trade in, or use of unbonded asbestos fibers;¹²
- (ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and
- (x) marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.

¹ Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

² Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" (www.ilo.org).

³ A list of pharmaceutical products subject to phase-outs or bans is available at <http://www.who.int>.

⁴ A list of pesticides and herbicides subject to phase-outs or bans is available at <http://www.pic.int>.

⁵ A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase-out dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

⁶ A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

⁷ A list is available at <http://www.cites.org>.

⁸ A list is available at <http://www.cites.org>.

⁹ As defined by the Basel Convention; see <http://www.basel.int>.

¹⁰ This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

¹¹ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded.

¹² This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

SCHEDULE 6

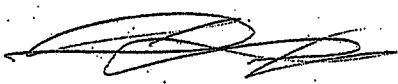
UNDERTAKINGS

In addition to such undertakings as ADB will reasonably require in legal agreements for individual tranches under the Facility, Uzbekistan undertakes the following:

1. **Implementation of the Housing for Integrated Rural Development Investment Program.** Uzbekistan and the PCBs will: (a) ensure timely implementation of the Program (Investment Plan and Policy Framework), including executing the implementation arrangements set out in Schedule 3 to this FFA and monitoring and evaluating implementation based on the Design and Monitoring Framework set out in Schedule 2 to this FFA; and (b) ensure that all projects financed under the Facility are selected and approved in accordance with the criteria and procedure set out in Schedule 4 to this FFA.
2. **Implementation of the Rural Housing Scheme.** Uzbekistan will: (a) give priority and provide adequate resources for the implementation of the RHS, as well as related activities, during the term of this Investment Program; (b) notify ADB of any changes to the RHS, or related activities, during the term of this Facility or any policies that may otherwise substantially affect the Investment Program; and (c) consult with ADB through a policy dialogue affecting any of these elements. This includes the following:
 - (i) Uzbekistan will allocate in its national budget for 2012, 2013, 2014 and 2015, counterpart financing for an aggregate of approximately 40,800 houses under the Rural Housing Scheme, and related infrastructure and social services in 2012, 2013, 2014 and 2015. Uzbekistan will also ensure that the PCBs make provision for the financing of subloans in 2012, 2013, 2014 and 2015. The foregoing counterpart financing by Uzbekistan, and provisions for financing of subloans by the PCBs, will be made by the end of 2011, 2012, 2013 and 2014 respectively.
 - (ii) Uzbekistan will cause QQI to sell its construction materials businesses/companies (comprising 12 brick companies and 1 door, window and roof factory) by 1 January 2013.
 - (iii) Uzbekistan will cause QQB to establish QQI as an independent legal entity by 1 January 2014.
 - (iv) Uzbekistan will set the terms for subloans under the RHS housing finance as follows:
 - a. For Tranche 1: a 15 year term with a 6 month grace period, whereby the interest rate is set at 7% for the entire term.
 - b. For Tranche 2: a 15 year term with a 6 month grace period, whereby the interest rate is set at 7% for the first 10 years, and equal to the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 5 years.
 - c. For Tranche 3: a 15 year term with a 6 month grace period, whereby the interest rate is set at 7% for the first 5 years, and at 90% of the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 10 years.




- d. For Tranche 4: a 15 year term with a 6 month grace period, whereby the interest rate is set at 7% for the first 5 years, and equal to the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 10 years.
 - (v) For each tranche, Uzbekistan will set the terms for subsidiary loans to PCBs under the RHS with a repayment term of 15 years and a 3 year grace period, an interest rate that corresponds to the interest rate structure of the subloans as defined under sub para (iv) above, and with an operating margin satisfactory to ADB;
 - (vi) During Tranche 1, Uzbekistan will undertake an assessment to define appropriate targets to ensure an increasing proportion of lower income households will be reached under the RHS during each subsequent tranche of the Program.
- 3. **Selection of PCBs.** Uzbekistan will select the PCBs that will participate in the Facility in close coordination with ADB. Uzbekistan will enable at least 1 new PCB (in addition to QQB) to participate in the provision of subloans under the same terms and eligibility criteria under this Investment Program by the end of 1 January 2013.
- 4. **Safeguards.** Uzbekistan and the PCBs will comply with ADB's SPS (2009) and ensure that an ESMS agreed with ADB as described in Schedule 5 of this FFA is established and functioning in each PCB.
- 5. **Gender and Social Dimension.** Uzbekistan will ensure that the Gender Action Plan agreed under the Facility described in Attachment 1 of Schedule 5 of this FFA is duly implemented, and that men and women are given equal opportunities to receive subloans extended by PCBs using the proceeds of the financing provided under the Facility.
- 6. **Technical and Financial Audits.** Uzbekistan will carry out annual technical and financial performance audits, and "value for money" assessments, for the RHS.
- 7. **Good Governance and Anticorruption.** Uzbekistan and the PCBs will: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Investment Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation. Uzbekistan and PCBs shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.
- 8. **Anti-Money Laundering and Combating the Financing of Terrorism.** Uzbekistan will ensure that each PCB:
 - (a) complies with applicable laws and regulations of Uzbekistan on combating money laundering and financing of terrorism and that loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;




- (b) formulates and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
- (c) promptly informs Uzbekistan and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs a PCB of its concern that there has been such an alleged violation, the PCB will: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.



PERIODIC FINANCING REQUEST

29 July 2011

TO: Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila 1550
Philippines

ATTENTION: Director General
Central and West Asia Department
Fax No: +632 6362301

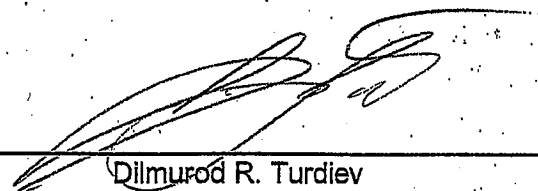
Sir/Madam:

RE: **Housing for Integrated Rural Development Investment Program:
Periodic Financing Request #1**

Please refer to the Framework Financing Agreement ("FFA") for the Housing for Integrated Rural Development Investment Program dated 29 July 2011 between Asian Development Bank ("ADB") and the Republic of Uzbekistan ("Uzbekistan"). Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, Uzbekistan requests ADB to process this periodic financing request (PFR) for a tranche, in the form of a loan from its ordinary capital resources. The proposed financing amount, terms, conditions, and related financing plan are set forth in the Attachment hereto. Descriptions of the project for which financing is hereby requested is set out in the Annex of the said Attachment.

By: Republic of Uzbekistan



Dilmurod R. Turdiev
First Deputy Minister
Ministry of Economy of the Republic of Uzbekistan

Attachment

Project Description Uzbekistan is committed to, and will implement, the Housing for Integrated Rural Development Strategy, a multisector strategy and roadmap for achieving more inclusive growth through improved rural living standards and livelihood opportunities. Under the Strategy, increased access to improved rural housing and an improved investment climate serve as a catalyst for improving living conditions and creating new job and livelihood opportunities in rural areas. The Housing for Rural Development Investment Program (Program) helps the government to implement the Strategy. The Program, proposed as a multitranche financing facility (MFF), comprises a series of financial intermediation loans to help finance affordable housing loans to purchase new modern rural housing for moderate to lower income borrowers, including young families and first-time homeowners, teachers and health care workers (two occupations in which women predominate), and other skilled professionals (targeted beneficiaries) under the government's Rural Housing Scheme (2011–2015) (RHS).¹ The MFF also supports improved capacity of local governments (*hokimiyats*) to implement integrated rural development plans and investment promotion strategies that focus on creating rural jobs, and strengthening the enabling environment for rural micro and small enterprises (MSEs). The Program is described in Schedule 1 of the Framework Financing Agreement.

Under the MFF, the first tranche (the Project) of \$200 million will support rural housing finance for new and modern housing and related capacity development. Uzbekistan will relend the local currency equivalent of the loan proceeds to Qishloq Qurilish Bank (QQB) for on-lending through subloans (Housing Loans) to qualified individuals (subborrowers) for acquiring new houses under the government's Rural Housing Scheme. The Design and Monitoring Framework for this tranche is in Annex 1.

Cost Estimates and Financing Plan The total cost of the proposed project is estimated at \$714.6 million equivalent. The detailed financing plan is presented below.

Financing Plan for Tranche 1 (\$ million)

Components	ADB	QQB	Sub-borrowers	GOU	Private Sector	Total	Share of Total (%)
Component 1, Part A: Financing of subloans	199.6	135.0 ^a	188.5	86.6	98.6	708.3	99.1
Component 1, Part B: Consulting services	0.4	0.7	-	-	-	1.1	0.2
Component 2 and 3	-	-	-	5.2	-	5.2	0.7
Total	200.0	135.7	188.5	91.8	98.6	714.6	100.0
%	28.0	19.0	26.4	12.8	13.8	100.0	

^a Includes concessional credit line of \$90 million.

Source: Government estimates.

¹ Selection criteria, including income thresholds and beneficiary targets, are detailed in the Facility Administration Manual (FAM) (linked document 2).

**Loan Amount
and Terms**

The request is for a loan of \$200 million from the ordinary capital resources of the Asian Development Bank (ADB) provided under ADB's London interbank offered rate (LIBOR)-based lending facility, with a 18 year term, including a grace period of three years, an interest rate determined in accordance with ADB's LIBOR-based lending facility, a commitment charge, and such other terms and conditions as agreed in the FFA, and further supplemented under the Loan and Project Agreement.

**Period of
Loan
Utilization**

The Project is expected to be completed by June 2013. No disbursements from the loan account will be requested or made later than two years from the effective date of the loan agreement for this tranche.

**Advanced
Procurement**

Advance action for procurement under the loan will be undertaken

**Implementation
Arrangements**

The Executing Agency will be the Ministry of Economy (MOE), which will be responsible for overall implementation of the Project. The MOE and QQB will be the implementing agencies for the Project. Of the total \$200 million, \$400,000 will support capacity development, the local currency equivalent of the remaining loan proceeds will be relent by the Government to QQB (the sole PCB for Tranche 1) under a subsidiary loan agreement (SLA). QQB will make subloans to subborrowers in accordance with approaches and procedures set out in the Facility Administration Manual (FAM), as agreed with ADB.

**Confirmation of
Continuing Validity
of and Adherence
to Provisions of
FFA, Previous
Agreements, and
the Design and
Monitoring
Framework**

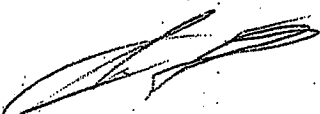
Uzbekistan confirms that the understandings set out in the FFA have been adhered, and remain true to date.

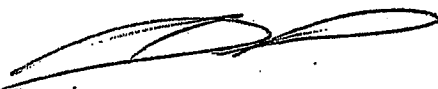
**Readiness of the
Project for
Implementation**

Due diligence has been undertaken as detailed in the report and recommendation of the President to the Board (RRP), that encompasses economic, financial, governance, safeguard and technical issues.

Capacity assessments (including a financial management assessment and integrity due diligence assessment) have also been undertaken for QQB and Qishloq Qurilish Invest (QQI) and found satisfactory.

RHS processes have been reviewed (including land selection, beneficiary selection, contractor selection (including procurement documents), pricing, construction quality assurance, contract formats, public information and stakeholder consultation processes). With in-depth policy dialogue, key steps for each critical process has been detailed in the FAM to guide implementation, and FAM attachments will include standard procurement documents and contracts that will be used under the Program following clearance by ADB.



A handwritten signature in black ink, consisting of a stylized, cursive script. The signature is located at the bottom left of the page. It appears to be a name, possibly "J. J. [unclear]", written in a fluid, connected style. The ink is dark and the background is white.

Annex 1

DESIGN AND MONITORING FRAMEWORK (for Tranche 1)

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved rural housing for targeted beneficiaries	At least 95% of 40,800 of new rural modern homes under the RHS with access to basic utilities owned and occupied by "targeted" beneficiaries (moderate to low-income households, young families, single-headed households, rural teachers and health workers) [of which 30% are women]	Specialized project reports submitted by EA to ADB	Assumptions Government implements RHS and related programs to promote rural development on a timely basis
Outcome Downstreaming of rural housing scheme for moderate and lower income beneficiaries, with a focus on women	Adoption of defined beneficiary selection criteria, and improved public awareness campaign, grievance process, and monitoring framework. Increased demand by targeted beneficiaries for housing loans under the scheme from 10,000 applicants per year in 2009, to 12,000 in 2011, and to 15,000 applicants in 2012 (gender disaggregated)	Government resolution QQB reports	Assumptions Government provides sufficient financing to implement RHS and related programs. Risks Ineffective intergovernmental coordination Demand by creditworthy targeted beneficiaries significantly exceeds supply. Increase in construction costs Nationwide implementation of RHS and procurement at local government level makes monitoring challenging
Outputs 1. Housing loans provided by PCBs to targeted creditworthy subborrowers in rural areas 2. Improved capacity of local governments to prepare and implement integrated rural development plans and investment promotion strategies 3. Improved enabling environment for entrepreneurs and MSEs to expand or establish new businesses in rural areas	At least 10,300 housing loans valued at SUM570 billion provided to targeted beneficiaries, of which 30% are women At least 10,000 staff of local governments trained in integrated rural development planning and investment promotion strategies, (sex-disaggregated) Total microcredit lending in rural areas increases from SUM485 billion in 2010 to SUM835 billion in 2012 Number of newly established MSEs in project areas (disaggregated by sex of owner) (baseline to be established) Number (and list) of new or revised policies, regulations, and laws adopted	Reports submitted by PCBs to ADB Specialized project reports submitted by EA to ADB Specialized project reports submitted by EA to ADB (with annual updates of funds allocated for MSE development and MSE outcomes achieved)	Assumptions Continuing creditworthiness of the subborrowers over the life of the housing loans PCBs are interested in increasing housing loan portfolio in rural areas Risks Inflation increases construction costs Weak absorptive capacity.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Activities with Milestones			Inputs
<p>1.1 Government adopts a new gender-sensitive process for identifying, prioritizing and selecting creditworthy targeted beneficiaries (moderate to low-income rural households, and teachers and healthcare professionals) to receive subloans (September 2011) and QQB initiates the broad public awareness campaign to solicit applications for subloans to be disbursed in 2012 (initiate in September 2011).</p> <p>1.2 Government amends RHS contractor selection in accordance with ADB procurement guidelines and adopts amended process for selection of 2012 contractors (September 2011).</p> <p>1.3 District <i>hokimiyats</i>, in coordination with relevant agencies, identify, select and approve land sites for 2012 (August/September 2011), and identify, prioritize, and recommend eligible 2012 subborrowers (September to November 2011).</p> <p>1.4 Provincial <i>hokimiyats</i> undertakes open competitive selection of contractors for 2012 (August to November 2011).</p> <p>1.5 QQB assesses eligible 2012 subborrowers for creditworthiness and approves 10,300 subloans for 2012 (October to December 2011).</p> <p>1.6 ADB conducts due diligence of (a) the selection of 2012 housing sites in accordance with ADB safeguard requirements, (b) the selection process for 2012 subborrowers, and (c) the selection process of 2012 contractors (November to December 2011).</p> <p>1.7 ADB provides an advance of approximately \$150 million, based on the cashflow projection for six months, to Uzbekistan under Tranche 1 (September - October 2011).</p> <p>1.8 MOF provides a loan to QQB in the amount of the local currency equivalent of \$199.6 million (with a first drawdown of \$150 million based on the cashflow projection for six months) under a subsidiary loan agreement (September - October 2011).</p> <p>1.9 MOE (PIU), in close coordination with ADB, develops and adopts implementation plans for:</p> <ul style="list-style-type: none"> a) Capacity development (March 2012) b) GAP (March 2012) c) Integrated and results-based monitoring, evaluation and quarterly reporting framework (for MFF roadmap, Capacity Development, GAP (first Program progress report January 2012). <p>1.10 QQB disburses loans totalling SUM 570.0 billion (\$335.0 million) to eligible subborrowers (January-June 2012).</p> <p>1.11 MOE (PIU), in coordination with ADB, undertakes the first technical-financial performance audit of RHS to evaluate transparency and accountability of amended processes (beneficiary selection, pricing, contractor selection, construction quality assurance) adopted for implementation of 2012, and evaluates value for money and construction quality of RHS houses built in 2009, 2010, and 2011 (initiate in November and completed by end February 2012):</p> <ul style="list-style-type: none"> 2.1. MOE (PIU), in close coordination with ADB, develops and adopts an implementation plan for MFF training activities to improve <i>hokimiyat</i> capacity to prepare and implement integrated rural development plans and investment promotion strategies (March 2012) 2.2. MOE (PIU) Develop training programs for <i>hokimiyats</i> (March 2012) 3.1. MOE (PIU) in consultation with ADB and key stakeholders, assesses main constraints to "rural" MSEs and develops a strategy and timebound action plan for strengthening the "rural" MSE enabling environment. (March 2012). 3.2 MOE (PIU) submits semi-annual reports on Program MSE activities (first report March 2012). 			<p>ADB \$200.0 million</p> <p>PCBs \$135.7 million</p> <p>Subborrowers \$188.5 million</p> <p>Government of Uzbekistan \$ 91.8 million</p> <p>Private Sector \$ 98.6 million</p> <p>Total \$714.6 million</p>

ADB = Asian Development Bank, EA = executing agency, FFA = framework financing agreement, GAP = Gender Action Plan; HIRD = Housing for Rural Integrated Development, MFF = multitranchise financing facility, MOE = Ministry of Economy, MOF = Ministry of Finance, MSE = micro, or small-sized enterprise, PCB = participating commercial bank, PIU = project implementation unit, QQB = Qishloq Qurilish Bank, RHS = Rural Housing Scheme

Source: Asian Development Bank.