



Concept Paper

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Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 and Technical Assistance Grant Republic of Uzbekistan: Small and Medium-Sized Enterprises Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 April 2021)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.0000950974
\$1.00	=	SUM10,515.54

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
MOF	–	Ministry of Finance
SBEDA	–	Small Business Entrepreneurship Development Agency
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TVET	–	technical and vocational education and training

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 42007-020	
Project Name	Small and Medium-Sized Enterprises Development Program (Subprogram 1)	Department/Division	CWRD/CWPF
Country	Uzbekistan	Executing Agency	Ministry of Finance
Borrower	Republic of Uzbekistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=42007-020-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=42007-020-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Small and medium enterprise development		20.00
	Trade and services		25.00
Education	Technical and vocational education and training		10.00
Finance	Finance sector development		5.00
	Inclusive finance		10.00
	Small and medium enterprise finance and leasing		20.00
Public sector management	Public expenditure and fiscal management		10.00
		Total	100.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.00
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4		Effective gender mainstreaming (EGM)	✓
SDG 4.3, 4.4			
SDG 5.6			
SDG 8.2, 8.3		Poverty Targeting	
SDG 9.3		General Intervention on Poverty	✓
SDG 10.4			
SDG 12.6			
SDG 17.17			
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Stand-Alone Policy-Based Lending (Concessional Loan): Ordinary capital resources		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		100.00	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-7) in the amount of \$250,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The proposed Small and Medium-Sized Enterprises Development Program aims to support the Government of Uzbekistan in improving the ecosystem for small and medium-sized enterprises (SMEs) to become catalysts for economic diversification and high value-added job creation, in line with the country's overall development strategy.¹ The ecosystem will be improved through a simplified regulatory, policy, and institutional framework; diversified financial instruments; digital infrastructure; skilled labor; and improved financial and digital literacy.

2. The program is included in the country operations business plan for Uzbekistan, 2021–2023 of the Asian Development Bank (ADB) and is aligned with ADB's country partnership strategy for Uzbekistan, 2019–2023.² It is also aligned with ADB's Strategy 2030 operational priorities 1, 2, 3 and 6, which support SME development, quality job creation, gender equality, and strengthening institutional capacity and governance.³ Improving the ecosystem for SME development requires parallel multisector policy, institutional, and process reforms. In Uzbekistan, the situation is compounded by the multiplicity of agencies involved and the ongoing restructuring of some of these agencies, including the Small Business Entrepreneurship Development Agency (SBEDA) which requires substantial capacity building to lead reforms effectively. The coordination necessary to enable each subprogram to, individually and collectively, achieve meaningful improvements using well-sequenced, cross-sector reforms across many weak agencies, is the key rationale for a two-subprogram policy-based programmatic approach. The approach will also help the SBEDA to become an effective host institution for future SME development interventions through a sector development program or a results-based program.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **ADB support for small and medium-sized enterprises development.** Since 1996, ADB has supported SMEs and microenterprises in Uzbekistan through loans and technical assistance (TA), and an equity investment in Ipak Yuli Bank. The focus has been (i) working capital and fixed assets financing, (ii) improving the risk assessment capacity of the participating financial institutions to serve SMEs better, and (iii) financing agro-processing SMEs to catalyze rural enterprises and increase rural employment. The assessment of the implementation of these loans and TA projects has highlighted the need to (i) engage in policy dialogue to catalyze the regulatory, institutional, and financial reforms necessary for SME development; and (ii) strengthen the capacity of financial institutions in subproject appraisal and supervision, credit risk management and financial disclosure, and corporate governance.

4. **Contribution of small and medium-sized enterprises to economic growth and poverty reduction.** Uzbekistan's gross domestic product (GDP) averaged 6.2% during 2010–2020, with GDP growth of 1.6% in 2020.⁴ The economic expansion has been concomitant with the rising incomes of SMEs and microenterprises, regular minimum wage increases, and social

¹ Presidential Decree No. 4947 dated 7 February 2017 on the Strategy of Actions for Further Development of Uzbekistan.

² The program is included in ADB. 2020. *Country Operations Business Plan: Uzbekistan, 2021–2023*. Manila; and ADB. 2019. *Country Partnership Strategy: Uzbekistan, 2019–2023—Supporting Economic Transformation*. Manila. Technical assistance will be provided for continuing program due diligence and program implementation, and will be attached to the report and recommendation of the President.

³ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁴ International Monetary Fund. 2021. *World Economic Outlook: Managing Divergent Recoveries*. Washington, D.C.

safety nets to cushion the impacts of structural reforms that have been under way since 2017. The national poverty rate declined from 25.8% in 2005 to 11.4% in 2018. Supported by government policy to develop the private sector and improve the country's business climate, the role and contribution of SMEs in the economy has been expanding.⁵ Some 411,203 SMEs were registered and active at the end of 2020, up 4% year on year. SMEs accounted for 54% of GDP in 2019–2020, with sectoral contribution being 97% in agriculture, 82% in trade, 72% in construction, and 52% in services. SMEs had a 27% share of exports and a 62% share of imports. Their share of investment was 40%.⁶ SMEs are the largest employers, providing 78% of formal and informal jobs combined in 2018, compared with 50% in 2000.⁷ In 2020, of the SUM48.4 trillion credit to small businesses, SUM6.1 trillion was channeled through the Family Entrepreneurship Development Program. Manufacturing and service SMEs are critical for achieving and sustaining the economic growth forecast of about 5% for the period following the coronavirus disease (COVID-19) pandemic and for boosting employment. Allowing for an accommodative fiscal policy in 2021 to address the impacts of COVID-19, the conservative fiscal policy continues with a low external public debt (34% of GDP). Healthy foreign exchange reserves of \$34.3 billion as of January 2021 and low rollover risks mitigate the potential risks of debt distress.⁸

5. Reforms to support small and medium-sized enterprises. Since 2017, Uzbekistan has been undertaking reforms to improve the enabling environment for private sector development, including SMEs. In the Doing Business 2020 report, the country ranked 69th globally, up from 76th place in 2018, with higher scores than the previous year in nine of the 10 assessment criteria.⁹ Commencing January 2019, tax system distortions that unfairly burdened small businesses, were removed. Tax rates for personal income, corporate income, and payroll tax rates were unified for both large and small firms. Tax rates for small firms were reduced (unified tax rate to 4%, property tax rate from 5% to 2%, and dividend tax from 10% to 5%). Trading across borders was eased using risk-based inspections and simplifying import documentary compliance. Despite improvements, constraints remain in the SME enabling environment.

6. COVID-19 and enabling environment reforms. The economic shock triggered by COVID-19 has affected SMEs through lost sales and revenues and depleted cash reserves. Tourism, a key SME segment, saw only 1.5 million tourists in 2020—a 77% decline compared to 2019.¹⁰ Women have been more affected than men, as they comprise 54% of workers in catering and trade SMEs, and 46% of workers in agriculture and forestry. While immediate fiscal and monetary support was provided to keep SMEs afloat and prevent large-scale job losses, the COVID-19 economic shock has strengthened the government's resolve to expedite reforms to address the continuing development constraints in the SME enabling environment to increase their resilience to future shocks and enhance their contribution to diversified economic growth.¹¹

⁵ Microenterprises comprise 91.8% of all registered businesses and small firms make up about 8.2% (18,900 units). D. Tadjibaeva. 2019. [Small and Medium-Sized Enterprise Finance in Uzbekistan: Challenges and Opportunities](#). ADBI Working Paper Series. No. 997. Tokyo: ADB Institute.

⁶ State Statistics Committee. 2021. *Socio-economic situation in the Republic of Uzbekistan: Small Business*. ([https://stat.uz/en/?preview=1&option=com_dropfiles&format=&task=frontfile.download&catid=325&id=1415&Itemid=10000000000000](https://stat.uz/en/?preview=1&option=com_dropfiles&format=&task=frontfile.download&catid=325&id=1415&Itemid=1000000000000)) (accessed 19 April 2021).

⁷ E. Trushin. 2019. *Uzbekistan—Toward A New Economy: Country Economic Update*. Washington, DC: World Bank.

⁸ International Monetary Fund. 2021. [Uzbekistan Staff Concluding Statement of the 2021 Article IV Mission](#). News release. 17 February.

⁹ World Bank. 2020. [Doing Business 2020: Comparing Business Regulation in 190 Economies](#). Washington, DC.

¹⁰ The State Committee of the Republic of Uzbekistan on Statistics. Committee News. <https://stat.uz/en/press-center/news-of-committee/7467-the-number-of-persons-leaving-and-entering-the-republic-of-uzbekistan-for-tourist-purposes-january-december> (accessed 19 April 2021).

¹¹ Sector Assessment (Summary): Industry and Trade (Small and Medium Enterprise Development) (accessible from the list of linked documents in Appendix 2).

7. **Lack of diversified financing instruments.** Most SMEs in Uzbekistan identify the lack of access to diversified formal financial instruments needed for various phases of the SME life cycle, as a constraint. Bank finance is the most widely used formal channel of finance. However, given high interest rates (about 19%), only about one-quarter of SMEs have a bank loan and more than 80% finance their working capital and investment needs through internally generated funds or personal sources. Perceived high risks and limited expertise in evaluating SME loans make SMEs unprofitable debt clients for banks. The higher risk perception translates into high collateral requirements (despite sufficient cash flow or purchase orders) and complex application procedures, with businesses owned or managed by women disproportionately affected. Data from the Collateral Registry indicate that more than 98% of loans issued since 2015 have been secured by hard collateral (for 94% of all loans) or cash deposits (4%). Despite a 25% expansion in access to bank credit, the share of loans to women's small businesses shrank from 11.6% in 2018 to 8.1% in 2019 (or 3% of total bank loans).¹² Alternative sources of collateral and security, such as future cash flows and warehouse receipts to facilitate supply chain finance for agriculture, need to be encouraged. Risk-sharing facilities, such as the credit guarantees scheme under the State Fund for Support of Entrepreneurship, can help by absorbing a portion of the lenders' losses. Such schemes and other innovative financial instruments have become even more necessary with Basel III regulatory framework making start-up and SME capital access even more constrained.¹³ The operation and governance of the existing State Fund needs strengthening.¹⁴ A comprehensive credit information database would also support non-collateral-based lending.¹⁵

8. **Low financial literacy of small and medium-sized enterprises.** Most SMEs in Uzbekistan have low financial literacy—adversely impacting sound business decisions and long-term sustainability. Credible business plans and appropriate financial reporting is lacking. Training in bookkeeping and financial statement and cash flow analysis is critical for SMEs to take advantage of risk-assessed business opportunities, minimize information gaps to access appropriate sources of finance, and reduce banks' collateral requirements.

9. **High institutional and administrative costs.** The government has simplified business-related legislation, streamlined some business registration and tax payment procedures, and expanded e-government services (footnote 9). However, institutional and administrative burdens continue to add to the costs of doing business for SMEs. Obtaining permits and licenses, including construction permits, is costlier for small firms than large firms.¹⁶ It can take up to 246 days to obtain a construction permit versus an average of 170 days in other Central Asian countries. Most SMEs remain micro-entrepreneurs, operating in low value-added sectors, and are not registered (footnote 5). Reducing the number of permits and licenses by about 30% could save at least SUM125 billion a year, while digitization using a single e-portal system would save at least SUM13 billion in printing costs and make the process more efficient and expedient.¹⁷ A single point of contact would avoid overlapping of services by different government agencies, including credit lines, training, and advisory. The absence of an SME definition consistent with international good practice creates the risk of ineffective and inefficient financial and non-financial support.

¹² Central Bank of Uzbekistan. 2020. *Statistical Bulletin, January–December 2019*. Tashkent. Marital property can only be registered either jointly or under the husband's name. ADB. 2018. *Uzbekistan Country Gender Assessment: Update*. Manila.

¹³ ADB. *Conference on Investments in Startups and Small Business Financing*. Tokyo. 29–30 January 2020.

¹⁴ ADB. 2021. *Policies to Optimize the Performance of Credit Guarantee Schemes during Financial Crises*. *ADB Briefs*. No. 167. Manila.

¹⁵ On 22 June 2020, the first private credit bureau, CRIF Kredit-Axborot Xizmatlari, was licensed in Uzbekistan.

¹⁶ World Bank. 2018. *Growth and Job Creation in Uzbekistan: An In-Depth Diagnostic*. Washington, DC.

¹⁷ The Ministry of Justice has published a draft presidential decree for discussion on measures to radically improve licensing and licensing procedures to simplify about 1,000 bureaucratic processes.

10. **Low human capital development, including entrepreneurial skills.** With almost 60% of its population under the age of 30, and its economic structure moving from labor-intensive agriculture to services and industry (including technology-focused industries), Uzbekistan requires a high rate of diversified job creation. Technical and vocational education and training (TVET) is not market-relevant because of the lack of industry involvement in the articulation of skills demand, development of competency standards and curricula, delivery of training, and assessment and certification. Industry-skills consultative bodies (e.g., sector skills councils) are lacking, as are enterprise surveys, occupational demand, and supply outlooks to better guide TVET interventions. A skills shortage is prevalent in construction, transport, and communications—the key growth sectors of the economy.¹⁸ Quality human capital will be critical for increasing the productivity of enterprises, creating high value-added jobs, and reducing regional inequalities.¹⁹ Quality sex-disaggregated data will help address the institutional, financial, and legal barriers to women’s entrepreneurship. A dedicated skills development window under the unemployment fund could be a platform to link TVET and training programs to market needs.²⁰

11. **Underexploited benefits of digitalization.** The digital economy offers new opportunities for SMEs to become more productive and competitive and to develop more effective value chain linkages. However, the technology adoption and digital transition of most SMEs lag large firms. SMEs often lack information and awareness of new digital possibilities, the skills needed to identify technology options for their businesses, and the financing solutions to implement change effectively. Training programs on digitalization and targeted government funding of digital tools for SMEs could help address these gaps.²¹ Uzbekistan ranks 76th out of 100 economies on the Inclusive Internet Index, which assesses countries based on the internet availability, affordability, relevance, and readiness of the public (e.g., internet skills and literacy), with the weakest score (81) on affordability, i.e., the cost of access relative to income and the level of competition in the internet marketplace. Uzbekistan has the 4th largest gender gap, with men 21% more likely to have access to mobile devices than women.²²

12. **Weak trade facilitation infrastructure.** As a double landlocked country, Uzbekistan is handicapped by the policies and infrastructure of its neighbors. In the Doing Business 2020 trading across borders indicator, Uzbekistan ranked 152 out of 190 economies (footnote 9). The costs for businesses to comply with documentary and border requirements for exports (\$570) and imports (\$520) are higher than for most countries in the region. Streamlining and digitalization, under a single window, of trade facilitation infrastructure and support services for the entire supply chain will bring greater efficiency. Uzbekistan’s key growth sector, horticulture, provides an opportunity to diversify its exports,²³ but SMEs’ knowledge of potential export markets outside their immediate region is limited. The Export Promotion Agency provides information on consumer preferences, product quality standards, and labeling, but does not help SMEs translate this information into viable sales and marketing plans or facilitate transactions. The trade facilitation ecosystem in this segment (testing, certification, sanitary and phytosanitary measures, product labeling, and country rules of origin) needs to be strengthened.

¹⁸ K. Anderson, E. Ginting, and K. Taniguchi. 2020. *Uzbekistan—Quality Job Creation as a Cornerstone for Sustainable Economic Growth: Country Diagnostic Study*. Manila: ADB.

¹⁹ United Nations Educational, Scientific and Cultural Organization. 2019. *TVET Policy Review: Uzbekistan*. Paris.

²⁰ ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Uzbekistan for the Skills Development for a Modern Economy Project*. Manila.

²¹ A. Ergasheva. 2020. *How Uzbekistan Is Transforming into a Digital Society in the Time of COVID-19*. Tashkent.

²² *The Economist*. [The Inclusive Internet Index](#) (accessed 19 April 2021). The index also measures relevant usage that enables positive social and economic outcomes at the individual and group level.

²³ The agriculture export value of horticulture is more than 35%. Uzbekistan is among the world’s top 10 exporters in several categories of fruits, vegetables, and nuts. A. Nurbekov et al. 2018. *Organic Agriculture in Uzbekistan: Status, Practices and Prospects*. Tashkent: Food and Agriculture Organization of the United Nations.

Uzbekistan will benefit from the transport and economic corridor initiatives under the Central Asia Regional Economic Cooperation.

B. Policy Reform, ADB's Value Addition, and Sustainability

13. The program builds on past ADB support to SMEs (para. 3). It focuses on cross-sectoral reforms critical for creating a more cost-effective and efficient operating and commercial environment for SMEs to support private sector development, particularly for women's businesses. Policy actions, sequenced across two subprograms, address four reform areas: (i) formal bank and non-bank financing instruments diversified, (ii) institutional and administrative costs of doing business reduced, (iii) trade facilitation and digitalization improved, and (iv) skills development and market needs aligned. ADB will create value addition by helping develop an ecosystem for SMEs to (i) formalize, grow, and create diversified, high value-added jobs; (ii) increase resilience to future economic shocks (such as COVID-19) and prevent reversal of gains that have accrued from SMEs (paras. 4 and 6); (iii) support the country's transition to a green economy through investments in green and digital technologies; and (iv) become innovative. An ADB Institute SME study and an Independent Evaluation Department synthesis note reiterate that a program cluster approach, and policy and regulatory measures that complement access to finance with improving the enabling environment, contribute to sustained and optimal SME development.²⁴ The preliminary policy design and monitoring framework is in Appendix 1.

C. Expected Outcome of the Reform

14. The program is aligned with the government's objective of increased employment and real incomes of the population across regions of the country. The expected outcome is the enabling environment for SME growth, diversification, and high value-added job creation improved. The effect of the reforms will be diversified economic growth and high value-added jobs.

D. Development Financing Needs and Budget Support

15. The government's 2021 budget maintains an accommodative fiscal policy, with a fiscal deficit of up to 5.5% of GDP, to ensure adequate resourcing of health care systems, vaccine purchases, and expansion of social assistance (footnote 8). ADB will provide an estimated \$200 million policy-based programmatic approach, equally between two subprograms, from its regular ordinary capital resources (concessional loan).²⁵ The amount for subprogram 1 (\$100 million) is based on an indicative financing deficit of \$2.2 billion in 2021, to be financed through borrowings from international financial institutions, eurobonds, and domestic securities.

E. Implementation Arrangements

16. The Ministry of Finance (MOF) will be the executing agency. The SBEDA, the State Fund, the Ministry of Employment and Labour Relations, and the MOF will be the implementing agencies. The proceeds of the loan will be drawn down in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The program will be implemented over two subprograms from January 2021 to December 2023.

²⁴ N. Yoshino and F. Taghizadeh-Hesary. 2016. [Major Challenges Facing Small and Medium-Sized Enterprises in Asia and Solutions for Mitigating Them](#). *ADB Working Paper Series*. No. 564. Tokyo: ADB Institute; and Independent Evaluation Department. 2020. [Responding to COVID-19: Lessons from Previous Support to Micro, Small, and Medium-Sized Enterprises](#). *Synthesis Note*. No. 3 (COVID Series-1). Manila: ADB.

²⁵ The increase in amount, from the earlier programmed \$100 million, is at the request of the Ministry of Finance and will be reflected in the forthcoming country business operations plan for Uzbekistan, 2022–2024.

III. TECHNICAL ASSISTANCE

17. Transaction TA of \$250,000, financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7), will support (i) the implementation of policy, legal, and regulatory reforms in the SME ecosystem; (ii) institutional restructuring and/or strengthening of the SBEDA and the State Fund; (iii) the preparation of an SME development strategy; and (iv) the implementation of interventions to increase digitalization among SMEs. The MOF will be the executing agency, and the SBEDA and the State Fund will be the implementing agencies.

IV. DUE DILIGENCE REQUIRED

18. The program will undertake due diligence on (i) regulatory and administrative burdens, (ii) availability of formal financing instruments for SME development, (iii) the efficiency of public risk-sharing facilities, (iv) the technical capacity of key agencies, and (v) potential poverty reduction and social and gender impacts. It will prepare a safeguard assessment matrix to confirm that reforms under the policy-based loan do not have any safeguard impacts.

V. PROCESSING PLAN

A. Risk Categorization

19. The program is *complex* as the loan amount exceeds the \$50 million threshold. ADB has extensive experience in Uzbekistan's finance sector. The executing and implementing agencies have experience in managing loans from international financial institutions. The proposed safeguard categorization for environment, involuntary resettlement, and indigenous peoples is *C*.

B. Resource Requirements

20. ADB staff with experience in advising on and implementing reforms for private sector development, public finance, and investment climate improvement will process the program. A total of 8 person-months of international and national expert support is estimated for diagnostic work, policy dialogue, preparation, and implementation of the program.

C. Processing Schedule

21. The milestones and their expected completion date are summarized in the table.

Proposed Processing Schedule

Milestone	Expected Completion Date
Fact-finding mission	14 May 2021
Management review meeting	8 July 2021
Loan negotiations	28 July 2021
Circulation to the Board	26 August 2021
Board approval	16 September 2021

Sources: Asian Development Bank.

VI. KEY ISSUES

22. No key issues are envisaged as there is strong and continuing political commitment to transition to a market-based economy driven by private sector development, including SMEs.

PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK

Country’s Overarching Development Objective Increased employment and real incomes of the population across regions of the country ^a	
Outcome Enabling environment for SME growth, diversification and high value-added job creation improved	Risks and Critical Assumptions R: Prolonged COVID-19 crisis adversely impacts speed of Government decisions as well as resources for SMEs R: Ongoing institutional restructuring depletes the already low capacity of agencies implementing reforms A: Government expedites reforms for private sector development including SMEs.

Indicative Policy Actions: Subprogram 1 (January 2021–September 2021)	Indicative Policy Actions: Subprogram 2 (October 2021–December 2023)	Outcome Indicators
Reform Area 1: Formal bank and non-bank financing instruments diversified		
<p>1.1 Ministry of Economic Development and Poverty Reduction (MOED&PR) to align the State Fund for Support of Entrepreneurial Activity (State Fund) with the World Bank’s 16 principles for Partial Credit Guarantees (PCG) by: (i) creating separate and more transparent accounting systems for the guarantee and interest compensation windows, (ii) establishing an independent board of directors to oversee the PCG, (iii) establishing a transparent operational framework for the issuance and management of guarantees with clear eligibility and qualification criteria, and introducing climate change risk management considerations into the environment and social management system (ESMS) used for project screening, (iv) establishing an effective risk management framework with a risk-based pricing policy and transparent claims management process, and (v) establishing an MIS system with quarterly reporting, external audit of financial statements and variance analysis against budgets.</p> <p>1.2 (i) Ministry of Finance (MOF) to approve additional \$X million for the State Fund in the</p>	<p>2.1 (i) Central Bank (CBU) mandate to be amended to include regulation of PCGs and other innovative financial instruments; and (ii) CBU to revise regulation providing prudent capital relief measures on guaranteed loans.</p> <p>2.2 Government to issue a resolution on (i) a new PCG product, with a higher guarantee ratio (70-75%) and a low maximum loan amount cap (\$20,000); and (ii) amending the charter of the State Fund to allow capital contributions by non-government entities such as International Financial Institutions (IFIs), commercial banks, and other private sector investors.</p> <p>2.3 Government to approve needed amendments and/or rules and by-laws to the law "On exchange of credit information adopted March 2012."</p> <p>2.4 Government to: (i) launch a National Venture (Capital) Fund with an initial capitalization of US\$1.5 million, ^b (ii) approve good practice-based operational guidelines and governance structure for the Fund, and (iii) approve rules that</p>	<p>Formal (bank) lending to SMEs increased by x% Baseline 2020: Bank lending to SMEs x% of loan portfolio Source: State Statistics Committee, MOED&PR</p> <p>State Fund restructured/reorganized and at least 25% of its guarantee portfolio covering women-owned/managed SMEs Baseline 2020: State Fund not compliant with World Bank’s 16 Principles for PCG schemes and...% guarantees are for women-owned/managed SMEs Source: MOED&PR and Annual Report of the State Fund</p>

Indicative Policy Actions: Subprogram 1 (January 2021–September 2021)	Indicative Policy Actions: Subprogram 2 (October 2021–December 2023)	Outcome Indicators
<p>2021 state budget, with at least 25% (target 50%) of new guarantees issued to women's small businesses as defined by the CBU, and (ii) State Fund to issue internal order requiring compilation of sex-disaggregated data on guarantees issuance.</p> <p>1.3 (i) CBU to abolish CBU Regulation 953 "On Procedures for conducting factoring operations by commercial banks on the territory of Uzbekistan", and (ii) Cabinet of Ministers (COM) to approve rules for moveable collateral and a registry of accredited warehouses.</p> <p>1.4 CBU to draft and COM to submit to Parliament legislative amendments allowing the creation of a regulatory sandbox.</p> <p>1.5 COM to submit to Parliament a draft law obligating leasing, and selected retail companies to provide credit history information to credit bureaus.</p> <p>1.6 COM to submit to Parliament a draft Law on Non-Bank Credit Institutions and Microfinance Activities that clearly defines the scope of services and governance principles of factoring organizations, microfinance institutions, and pawnshops and the corresponding regulatory role of the Central Bank.</p>	<p>allow for diversification of the capital base of the Fund to include private sector participation and use of crowdfunding.</p> <p>2.5 Government to approve regulations and by-laws to implement the Law of On Non-Bank Credit Institutions and Microfinance Activities approved under 1.6.</p>	
Reform Area 2: Institutional and administrative costs of doing business reduced		
<p>1.7 (i) MOED&PR to adopt a decree/resolution making it mandatory to use a consistent SME definition, including for women's businesses, based on international norms and practices, and (ii) MOED&PR to create a dedicated unit in SBEDA (with at least X female technical staff) to</p>	<p>2.6 Government to: (i) implement e-procurement for tenders including small value tenders, (ii) implement reservation of at least X% of its small value IT contracts (i.e., less than US\$ X million) for SMEs developing digital solutions for small businesses, and (iii) increase accounting and</p>	<p>Increased share of public procurement contracts awarded going to SMEs Source: SBEDA and MOF websites</p> <p>Government direct financial assistance schemes for SMEs channeled through (only)</p>

Indicative Policy Actions: Subprogram 1 (January 2021–September 2021)	Indicative Policy Actions: Subprogram 2 (October 2021–December 2023)	Outcome Indicators
<p>(a) collect and communicate vital information to the SME sector on government services for SME development, and (b) collect and analyze sex-disaggregated SME data (finance, sectors, jobs, procurement, training needs, etc.); and (iii) SBEDA to develop incentive mechanism/s for SMEs to use renewable-energy based technologies.</p> <p>1.8 COM to: (i) issue a decree mandating SBEDA as the dedicated agency for implementing the SME development strategy including SME development services, (ii) reduce the unified tax rate (personal income tax, corporate income tax, and payroll tax), and (iii) adopt regulation requiring the sequenced implementation of IFRS for SMEs.</p>	<p>financial management capacity of SMEs through training on adoption of IASB’s ‘IFRS for SMEs’ for at least XX participants/SMEs.</p> <p>2.7 Government to issue resolution streamlining of all SME financial support schemes under SBEDA by 2023.</p>	<p>one state-owned bank (likely Microcredit) Baseline 2020: Multiple government assistance schemes and channeled through various banks.</p>
<p>Reform Area 3: Trade Facilitation and Digitalization Environment Improved</p>		
<p>1.9 SBEDA to provide interest subsidies on loans to develop open-source digital tools and online platforms for SMEs (e.g., digital applications for business -to- business, supply chain, logistics providers, optimization of search engines, crowd-funding, early warning mobile apps for agricultural SMEs, etc.).</p> <p>1.10 State Customs Committee to: (i) operationalize at all border customs posts a unified and interoperable digital Single Window platform, and (ii) complete international accreditation of testing laboratories for growing export sectors particularly agricultural produce and fruits and nuts.</p> <p>1.11 COM to fully comply with the economic and governance requirements of the European</p>	<p>2.8 (i) Government to draft and submit to Parliament amendments to the e-commerce law; and (ii) draft an ecommerce taxation strategy based on OECD principles and circulate it for stakeholder (including public) consultation.</p> <p>2.9 Government to issue decree to align ecommerce implementation rules (under the amended Ecommerce Law approved May 2015) with the Law on Payments and Payments Systems (approved September 2019).</p> <p>2.10 Central Bank to approve and operationalize regulations to mainstream electronic and digital financial services based on the Law “On Payments and Payment System.”</p>	<p>Reduced time for registering cargo customs declaration Baseline 2020: Registration time 3 days</p> <p>Goods and/or services exported to at least(number) new markets Baseline 2020: Exports concentrated in four markets (Russian Federation, Kazakhstan, PRC, and Turkey)</p>

Indicative Policy Actions: Subprogram 1 (January 2021–September 2021)	Indicative Policy Actions: Subprogram 2 (October 2021–December 2023)	Outcome Indicators
<p>Union’s Generalized System of Preferences plus (GSP+) trade status.</p> <p>1.12 (i) Ministry of Communications and Technology to establish XX regional Digital Competency Training Centers with women entrepreneurs constituting at least 25% (target 50%) of the trainees; and (ii) MOF to direct at least 5% of funds of all investment projects, including IFI projects, to digital components.</p>	<p>2.11 To implement the President Decree (No. RP-6079 “On approval of the strategy Digital Uzbekistan – 2030,” Government to make online payment mandatory for all state mandatory payments, including duties, fees, and fines.</p> <p>2.12 SBEDA to implement MOED&PR decree/order on a SWOT analysis for accessing Eurasian Economic Union, Middle East, South-East Asia, South Asia, PRC markets.</p>	
Reform Area 4: Skills Development and Market Needs Aligned		
<p>1.13 MOELR to (i) earmark at least \$X for skills training in 2021 under the Unemployment Fund, and (ii) accredit 14 regional non-government skills training centers for women and youth owned SMEs (accredited, if prospective employers are involved in training and assessment and incentivized through 70% training cost reimbursement from the Unemployment Fund and micro loans on completion of the training program).</p>	<p>2.13 Government to budget at least \$X million annually from 2022-2025 for skills development (under the Unemployment Fund with KPIs linked to 1.13 (ii)).</p> <p>2.14 Government to issue decree requiring (i) SBEDA to conduct periodic enterprise surveys to link skills training programs to market needs and to complete the first survey by Q2 2022; and (ii) Ministry of Labor and Employment to develop and implement at least XX trainings on IASB’s IFRS for SMEs for accountants and at least YY trainings for renewable energy-based start-ups.</p>	<p>Skills training through the Unemployment Fund completed by at least x# of unemployed or underemployed people and employed in SMEs, of which ‘x’ are women’s businesses as per CBU’s definition.</p> <p>Baseline 2020: Unemployment Fund skills training window not operational</p>
<p>Budget Support Asian Development Bank Subprogram 1: \$100 million ordinary capital resources (concessional loan) Subprogram 2: \$100 million ordinary capital resources (concessional loan) Technical Assistance Special Fund (TASF-7): \$250,000</p>		

A = assumption, ADB = Asian Development Bank, CBU = Central Bank, COM = Cabinet of Ministers, MOEDLR = Ministry of Employment and Labor Relations, MOED&PR = Ministry of Economic Development and Poverty Reduction, MOF = Ministry of Finance, PCG = Partial Credit Guarantee, R = risk.
 Source: Asian Development Bank.

^a Government of Uzbekistan. 2017. Presidential Decree No. 4947. *On Strategy of Actions for Further Development of Uzbekistan*. Tashkent. (The five priority areas are: Economic liberalization, Development of the social and environmental spheres, Constructive foreign policy, Rule of law, and Good governance)

^b The entire \$1.5m is to be used as investment capital rather than some of the amount being used for administrative purposes.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=42007-020-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): Industry and Trade (Small and Medium Enterprise Development)