

 Early Warning System

ADB-57245-001

Inclusive Finance Sector Development Program Subprogram 1



Quick Facts

Countries	Uzbekistan
Financial Institutions	Asian Development Bank (ADB)
Status	Proposed
Bank Risk Rating	C
Voting Date	2024-09-24
Borrower	Government of Uzbekistan
Sectors	Finance, Industry and Trade, Law and Government
Investment Type(s)	Loan
Investment Amount (USD)	\$ 400.00 million
Loan Amount (USD)	\$ 400.00 million
Project Cost (USD)	\$ 600.00 million



Project Description

As stated by the ADB, the objective of the proposed SDP is to support sustainable, climate-resilient, and inclusive growth through access to finance for unbanked low-income households and microentrepreneurs.

The SDP is designed to help achieve sustainable and inclusive growth in the microfinance segment of the finance sector. It is aligned with five of the seven operational priorities (OP1 and OP7) of the Asian Development Bank (ADB) Strategy 2030:

- addressing remaining poverty and reducing inequalities (OP1);
- accelerating progress in gender equality (OP2);
- tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3);
- promoting rural development and food security (OP5); and
- strengthening governance and institutional capacity (OP6).

The SDP also aligns with ADB's country partnership strategy, 2019-2023 for Uzbekistan.

The PBL will help reform the microfinance segment by:

- (i) preparing and implementing a new legal and regulatory framework for sustainable microfinance;
- (ii) creating a transformation window for the industry to move to a new category of microfinance bank (MFB) that can take deposits;
- (iii) establishing a new apex platform to provide access to wholesale funding while tackling the fundamental funding issues that microfinance providers face;
- (iv) enabling demand through new legal frameworks and guidelines for Islamic, green, and digital microfinance;
- (v) removing the distortions to the market created by government-directed subsidized lending to microentrepreneurs; and
- (vi) operationalizing a new regulatory sandbox for innovations in the segment.

The two-subprogram programmatic approach ensures the implementation of time-bound reforms under three reform areas outlined in section 3 (Program Rationale).

Subprogram 1 will develop foundational and legal/regulatory reforms in these areas, while subprogram 2 will focus on expansion of implementation including institutionalizing of these reforms.

The FIL component will provide funding to reduce the government's heavy reliance on social lending to achieve its microfinance objectives as part of the National Financial Inclusion Strategy 2024-2026, by creating a commercial microfinance alternative through one or more large state banks that are in the process of being commercialized by the government.

It is envisaged that at least two of the three large policy banks Agrobank, Microcreditbank, and Xalq Bank will participate, and that the government will match ADB's \$100 million FIL at a ratio of 2:1 with government counterpart funding to be transferred from the social lending program, making a total of \$300 million available for commercial microfinance (at market rates) through the state banks.

The FIL will fund a credit line facility that initially will target more than 1 million social lending graduates that currently are either unbanked or underbanked. At least 30% of the facility will be carved out for businesses owned or managed by women, and at least 15% will be on lent to creditworthy MFOs on a wholesale basis. The FIL will also support microcredits aimed at climate adaptation and mitigation by funding small scale green finance product programs being tested and rolled out by one or more of the state banks.

Subject to satisfactory ADB due diligence, the government will be the borrower of the FIL, and MOEF will act as the executing agency. The preliminary financial management risk for the FIL component is substantial given the complexity of the program and the potential lack of skills among financial intermediaries to comply with ADB's requirements for conducting due diligence of sub-borrowers following the CAMELS methodology. The financial management risk rating will be updated once the financial due diligence is completed.



Early Warning System Project Analysis

The ADB categorized the project E&S risks as follows:

Environment C

Involuntary ResettlementC

Indigenous Peoples C



Investment Description

- Asian Development Bank (ADB)

As stated by the ADB, the \$600 million Inclusive Finance SDP includes a PBL of \$400 million, to be delivered in a programmatic approach in two subprograms, and a FIL of \$200 million in subprogram 1 to the Government of Uzbekistan. The FIL entails a credit line facility of \$200 million to be administered by the Ministry of Economy and Finance (MOEF) to support commercial microfinance. The program will also benefit from anticipated government counterpart funding of \$200 million, to be allocated from repayments under government lending programs and blended with the FIL for commercial microfinancing, and a technical assistance (TA) grant of \$1 million from the Technical Assistance Special Fund (TASF-7 for \$700,000) and the Financial Sector Development Partnership Special Fund (FSDPSF for \$300,000).



Contact Information

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No contacts provided at the time of disclosure.

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Bank Documents

- [Concept Note](#)
- [Country Partnership Strategy: Uzbekistan, 2019–2023.](#)
- [Project Disclosure PDF](#)



Other Related Projects

- ADB-57245-002 Inclusive Finance System Development