

Ex-Ante Evaluation
Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

- (1) Country: Republic of Uzbekistan ("Uzbekistan")
- (2) Project site/area name:Uzbekistan
- (3) Project name: Support Project for Micro,Small and Medium Enterprises in Uzbekistan
- (4) Signing Date: October 3rd, 2023

2. Background and Necessity of the project

- (1) Current status and issues of private sector in Uzbekistan

Uzbekistan's micro, small, and medium-sized enterprises ("MSMEs") play an important role in the country's economy, accounting for about 53.9% of the country's GDP (National Statistical Office, 2020) and 78% of the working population (National Statistical Office, 2019). On the other hand, MSMEs' access to finance is inadequate, with a funding gap equivalent to about 18% of GDP (International Finance Corporation ("IFC", 2018). With the country's MSMEs with access to bank loans accounting only for 22% (World Bank ("WB"), 2019), improving access to finance is an urgent issue in the promotion of MSMEs, which is in turn essential for the further development of the country's economy.

In 2022, the Government of Uzbekistan formulated the Development Strategy of New Uzbekistan 2022-2026 as the country's development strategy. The strategy identified promoting small and medium-sized enterprises (SMEs) and improving their access to credit as key issues. The country's financial sector has preserved the tradition of the soviet time, with the government providing loans at low interest rates to state-owned banks, which in turn provided loans at low interest rates to priority sectors and state-owned enterprises, resulting in a large expansion of assets by state-owned banks. As a result, it has been pointed out that the country's financial sector is mainly engaged in the process of verifying eligibility for preferential loans, and has not developed the basement for analyzing the creditworthiness and risk of loan recipients and making loans. Private companies that cannot obtain preferential loans are forced to rely on collateral and nepotism to obtain financing, making it difficult for MSMEs without collateral or nepotism to access financial services. In this environment, private commercial banks mainly provide financial services

to private companies, including MSMEs, and it is important to support activities that enable private commercial banks to increase their size and lending capacity in order to promote MSMEs in the country (WB, 2021).

The project will support Joint Stock Commercial Bank With Foreign Capital “Hamkorbank” (“HMK”) , one of the country's leading private commercial banks, to expand its financing by providing a long-term loan with IFC to improve MSMEs access to finance in the country, which is consistent with the sector's challenges and the policy of the Government of Uzbekistan.

(2) Japan and JICA's Policy and Operations in the Private Sector

JICA Country Analysis Paper for Uzbekistan (September 2022) sets "sustainable economic growth and industrial diversification and upgrading" as major goal. Rolling Plan of Country Assistance Policy also stipulates a policy of providing support for the promotion of MSMEs. As mentioned above, in the financial sector, the government of Uzbekistan is promoting (1) privatization and reform of state-owned banks and (2) promotion of private commercial banks, gaining support from international financial institutions. JICA has been cooperating with the government of Uzbekistan through the "COVID-19 Crisis Response Emergency Support Loan," which is a yen loan provided in cooperation with the WB, and “Specific Training in the Field of Private Sector Revitalization and Youth Training” and other programs to develop human resources in relevant institutions. The policy matrix of the said "COVID-19 Crisis Response Emergency Support Loan" sets the goals of "improving the efficiency of financial resource allocation and transparency of the financial sector," and has set a series of targets such as prohibiting concessional loans by state-owned banks to state-owned companies and increasing the number of private sector members on state-owned bank boards. By promoting cooperation in this area from the perspective of (2) above through the loan to HMK, a major private commercial bank in Uzbekistan, a synergy effect is expected with the JICA projects and support from international financial institutions that have been implemented to date are also expected. In Uzbekistan, through the "Horticulture Value Chain Promotion Project," has provided support through financial institutions for the purpose of agricultural and rural development. Where there is a high demand for funds after the transition to a market economy and a large financing gap, the project will support to financial institutions in cooperation, and potential synergies are

expected. In addition, the Uzbekistan Country Analytical Paper (2023) points out the impediments to the dynamism of the private sector and the slow shift to market-based industries with comparative advantages, and these activities will contribute to "strengthening the international competitiveness of the industry," which is a key issue. This project aims to promote MSMEs through loans to HMKs, and contributes to the goal of "improving the external environment for private sector growth and access to finance and markets" under the Private Sector Development in JICA's Global Agenda.

3. Project Description

(1) Project Description

① Project Objectives

This project will provide long-term loans to HMK in Uzbekistan to improve access to finance for MSMEs in the country, thereby contributing to the promotion of MSMEs and sustainable economic growth in the country.

② Project Components

Through the bank loan to HMK, the project will improve HMK's access to finance, including loans to MSMEs throughout Uzbekistan, thereby contributing to the country's sustainable economic growth.

③ Project Beneficiaries(Target Group)

MSME in Uzbekistan

(2) Estimated Project Cost: About 59 million dollars (JICA loan 35 million USD)

(3) Schedule: March 2023 - March 2027

(4) Project Implementation Structure

(1) Borrower:HMK.

(2) Execution Agency:HMK.

(5) Collaboration and Sharing of Roles with Other Donors

(1) Japan's Activity: N/A

(2)Other Donor's Activity: Co-finance with IFC.

(6) Environmental and Social Considerations

① Category: C

② Reasons for Categorization: It is Judged under the JICA Environmental and Social Considerations Guidelines(promulgated in January 2022)that the undesirable effects of the Project on the environment are minimized.

(7) Cross-cutting issues: N/A

(8) Gender Classification:

Gender-related Projects GI(S) Gender Activity Integration Projects

Reason for Categorization: Although the review identified gender mainstreaming needs, it did not result in the establishment of indicators for specific initiatives that contribute to gender equality and women's empowerment.

(9) Other special notes: N/A

4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (2022)	Target(2026) 3 years after L/A signing
Total loan outstanding to MSMEs (sum)	4,055billion UZS	7,093billion UZS
Number of MSME borrowers	29,986 companies	40,796 companies

As reference values, we will monitor the loan outstanding to women-owned MSMEs and the number of women-owned MSME borrowing firms. These quantitative effects are not only the impact of JICA loans, but also the target figures for HMK's total outstanding loans to MSMEs.

(2) Qualitative effects

To Improve MSME financial access.

5. assumptions and external conditions

N/A

6. Lessons Learned from Past Projects

In the ex-post evaluation results of ODA loan to Egypt, the Micro and Small Enterprises Support Project (FY 2016), JICA learned the lesson that it is important to understand the loan implementation system of the implementing and intermediary lending institutions when forming a project for a similar project supporting loans to micro and small enterprises. In this project, HMK's screening and risk management capacity was closely examined through the screening process, and it was confirmed that there were no particular concerns.

7. Evaluation Results

This project is in line with the country's development issues and policies, as well as the cooperation policy and analysis of Japan and JICA, and will contribute to improving access to finance for MSMEs in the country by supporting HMK's financing expansion, which is considered to contribute to SDG Goals 8 (improving access to financial services), 9 (promoting industrialization by expanding access to finance for small businesses), and 17

(partnership).

8. Plan for Future Evaluation

(1) Indicators to Be Used: As shown in Section4

(2) Future evaluation schedule(estimate)

Ex-post-evaluation is planned approximately 3 years after L/A signing

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