S&P Global
Ratings

Powered by Shades of Green

An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings' opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer's most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Business Development Bank's Sustainable Finance Framework

Jan. 28, 2025

Primary contact

Catherine Baddeley
London
+44 20 7176 0459
catherine.baddeley
@spglobal.com

Location: Uzbekistan **Sector:** Bank

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Eligible projects aim to tackle a wide range of environmental and social issues in the Republic of Uzbekistan. Successful implementation of the green projects could reduce exposure to environmental and climate risks for households and micro and small-to-midsize enterprises (MSMEs), which constitute a major proportion of BDB's lending. Furthermore, social project categories might support job creation and access to essential services, including in underdeveloped regions.

Weaknesses

Existing buildings financed under the framework might use on-site fossil fuel heating. Such investments can lead to carbon lock in. Furthermore, eligible green projects include buildings with in-use certifications. Such certifications might contribute to lowering energy consumption, but they do not necessarily specify minimum energy-saving thresholds. This limits our insight into the projects' overall environmental benefit.

Areas to watch

BDB is still developing its climate transition risk strategy. The bank is yet to calculate its operational and financed emissions and set greenhouse gas emission reduction targets. We view BDB's downstream greenhouse gas emissions as highly material given its exposure to the real estate sector, including construction.

The bank's physical risk considerations are nascent. Its environmental and social risk management policy does not clearly outline how it assesses and manages physical climate risks. Positively, BDB aims to conduct a physical risk stress test on its financed activities as part of its 2024-2026 strategy.

Eligible projects include buildings and infrastructure assets that could necessitate large-scale construction works. BDB is indirectly exposed to potential social issues such as impacts on communities related to those financed projects.

Shades of Green Projects Assessment Summary

Over the three years following issuance, BDB expects to allocate 15% of the proceeds to refinancing projects and the remaining 85% to new projects. Visibility on the actual distribution of proceeds between categories is limited at this stage, which is typical for banks that have financing frameworks with many project categories.

We assess eligible green projects under BDB's sustainable financing framework based on their environmental benefits and risks, using our Shades of Green methodology.

Green Buildings	**Light green**
Construction, acquisition, and renovation of buildings.	
Renewable Energy	**Dark to Medium green**
Renewable energy including solar, wind, hydropower, geothermal, and other low-carbon energy sources with lifecycle emissions lower than 100gCO2e/kWh.	
Energy storage and smart grid solutions.	
Construction, renovation, or refurbishment of electricity grids that partly transmit renewable energy.	
Energy Efficiency	**Light green**
Development, implementation, maintenance, or repair of products or technologies that reduce energy consumption or improve resource efficiency.	
Clean Transportation	**Dark green**
Low carbon transportation and related infrastructure.	
Environmentally Sustainable Management of Living Natural Resources and Land Use, Agriculture and Forestry	**Medium to Light green**
Rehabilitation of degraded land.	
Agroecological and organic farming.	
Climate resilient crop cultivation.	
Urban greening projects.	
Pollution prevention and control	**Medium to Light green**
Sustainable waste management, sorting, separation, and recycling projects.	

Projects that reduce industrial air emissions and control greenhouse gas emissions through the purchase of new, or the refurbishment of existing, equipment, technologies, and facilities.	
Eco-efficient circular-economy-adapted products, production technologies, and processes	**Light green**
Circular economy products and services including those that increase product life and products made of bio-based materials.	
Sustainable water and wastewater management	**Light green**
Development, construction, acquisition, installation, operation, maintenance and upgrades of sanitary and sustainable water and waste-water-management projects and facilities.	
Terrestrial and aquatic biodiversity	**Medium to Light green**
Development and management of national parks, wildlife sanctuaries, or eco-tourism zones.	
Establishing parks, green roofs, and urban forests that support biodiversity.	
Ecological restoration programs.	
Climate change adaptation	**Medium green**
Climate-change-adaptation projects focused on enhancing preparedness and resilience to expected changes in climate.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Joint-Stock Commercial Bank "Business Development Bank" (BDB) is a state-owned bank in the Republic of Uzbekistan. The bank was established in 1994 as JSCB "Gallabank" with a focus on the agricultural sector, and in 2009 the bank underwent restructuring and was renamed JSCB "Qishloq Qurilish Bank," shifting its focus to rural development. In 2023, in accordance with a respective presidential decree, the bank was rebranded as Business Development Bank and its main focus was defined as promoting entrepreneurship in Uzbekistan. The bank's primary aim is to offer financial services to micro and small and mid-size enterprises (MSMEs) through various financing options and non-financial support. As of Dec. 31, 2023, BDB's gross customer loans amounted to about Uzbekistani sum (UZS) 23,057.86 billion (about US$1.84 billion). Around half of its lending is to individuals, with the other half to legal entities.

The bank's shareholder structure includes the Ministry of Economy and Finance (49.6%), the Uzbekistan Fund for Reconstruction and Development (49.3%), and individual holdings (1.1%).

Material Sustainability Factors

Physical climate risk

Physical climate risks will affect many economic activities as climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, which exposes banks. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical locations of the activities and assets they finance. Uzbekistan is exposed to heat waves, extreme cold, drought, and floods, which damage agriculture, forests, and even the hydrological system. This creates social, economic, and health risks. Banks can help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities that impact the environment. Their direct environmental impacts are small compared to financed emissions and stem mainly from power consumption (data centers for example). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as real estate construction and transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities. The Republic of Uzbekistan has set a target of reducing specific greenhouse gas emissions per unit of GDP by 35% below 2010 levels by 2030.

Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impacts through the activities they fund or invest in. For example, bank-financed activities such as real estate construction and agriculture can have material biodiversity impacts. As a financial enabler the bank also helps preserve biodiversity by financing biodiversity conservation projects. The Uzbekistani government has committed to increase total protected areas to 12% of its territory by 2028, as outlined in its National Biodiversity Strategy and Action Plan and its biodiversity conservation strategy for 2019-2028. At the time of writing, this has already been achieved but is still far from the Kunming-Montreal Global Biodiversity Framework's target to reach 30% by 2030.

Social factors

Banks' large impact on society and the economy stems from their role in enabling access to financial services for individuals and businesses, and in ensuring the correct functioning of payment systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. As financial enablers, banks have the capacity to impact a wide range of community issues by providing economically vulnerable groups with access to essential services. This can help alleviate income inequality and foster upward social mobility and foster a country's economic development, notably by supporting MSMEs. Uzbekistan adopted its first National Financial Inclusion Strategy in 2021 focusing on five key policy areas: basic financial services, access to finance for MSMEs, digital financial services, financial consumer protection, and financial literacy. The impact of financed projects on communities is a material consideration, especially the financing of construction projects. These currently make up about 30% of BDB's lending activities, including real estate construction. Large scale construction can also result in air pollution, which can impact the health of communities. Uzbekistan is also experiencing largescale urban renewal, which can impact local residents.

Issuer And Context Analysis

BDB's eligible project categories aim to address the bank's material sustainability factors. The green categories target climate transition risks, physical climate risks, and biodiversity risks, which are the most material environmental factors for the bank. Meanwhile, its social categories such as affordable housing, access to essential services, and employment generation and protection seek to widen access to financial services and contribute to the economic development of targeted groups such as underserved communities and MSMEs led by women or unemployed individuals. However, the financing also introduces risks such as biodiversity impacts and effects on communities.

The bank has relatively high exposure to climate-sensitive sectors, although its climate strategy remains nascent. As of end-2023 around half of its gross lending and advances was to individuals (47%), including mortgage loans for real estate purchases and construction. Furthermore, manufacturing represented 18%, followed by trade (11%), agriculture (8%), and construction (8%). The bank is developing its climate strategy and is still working to measure its greenhouse gas emissions, expected by end-2025. As such, BDB is yet to set formal reduction targets but in the long term expects to reduce its overall carbon footprint, including its downstream emissions. To help reduce its downstream emissions, BDB aims for 12% green loans in its overall lending portfolio by end-2026 by offering lower-interest loans, with government subsidies also expected to increase demand for clean energy projects. BDB also aims to expand its green product offerings, focusing on the construction and renovation of energy-efficient buildings and financing electric vehicles (EVs). In collaboration with Ministry of Ecology, BDB conducts training and workshops for entrepreneurs to support them in their green energy transition.

BDB is yet to undertake a physical and transition climate risk assessment for its entire credit portfolio. For smaller projects the bank currently uses its environmental and social management system (ESMS) policy to evaluate environmental risks. When financing large projects, the bank also relies on opinions from the Ministry of Ecology. External tools are also utilized as part of the project selection process, including climate assessment tools provided by multilateral development banks. However, we note that BDB's ESMS policy does not have explicit requirements or thresholds in place to manage physical climate risks. Furthermore, as part of its 2024-2026 strategy it aims to perform climate risk stress tests for its credit portfolio**,** which is highly relevant considering its lending exposure to the real estate sector, in our view.

The bank has measures in place to identify and manage potential impacts on biodiversity from its financing activities. The framework's aquatic and terrestrial biodiversity project category specifically aims to address biodiversity risks, for example through habitat restoration. On the other hand, other eligible projects, such as the construction of renewable energy plants, may introduce biodiversity risks. BDB will identify and manage such impacts through environmental impact assessments (EIAs). Although the bank is yet to formulate a comprehensive biodiversity

policy, it uses its ESMS and green financing policies to assess the potential biodiversity risks associated with its financing activities. Furthermore, for high-risk sectors such as agriculture it relies on opinions from the Ministry of Ecology.

BDB's core sustainability objectives include fostering access and affordability specifically for SMEs, which constitute the majority of its loan portfolio (53%). With government backing, BDB operates to provide state support to small businesses in Uzbekistan. The bank also provides a dedicated platform, biznes-portal.uz, that offers tools and resources to entrepreneurs to help navigate the business landscape. Additionally, it provides non-financial support and training through regional small business support centers and advisory services, promoting financial inclusion and literacy among entrepreneurs. On the other hand, BDB's lending activities also include exposure to construction activities, in particular real estate, which can lead to material impacts on communities. The bank partly manages this by explicitly excluding forced evictions from framework activities.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles.

Alignment Summary

Aligned = ✓ Conceptually aligned = o Not aligned = ×

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and we consider all social project categories to be aligned. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. In addition, the bank will disclose the share of financing versus refinancing in its allocation of proceeds and the maximum look-back period is three years, in line with market practice.

✓ Process for project evaluation and selection

The framework outlines a process that BDB has developed to evaluate and select potential projects. The Financial Institutions department analyses eligible projects and submits proposals to the Credit Committee, which consists of representatives from the Treasury, Communication, Sales Management, Risk Controlling, Credit Risk Management, and Compliance teams, who will select the eligible projects. The potential environmental and social risks associated with the projects are identified and managed through BDB's existing sustainability and risk management framework. The framework excludes funding activities that are related to thermal coal mining or coal-fired electricity generation capacity, oil and gas exploration and extraction, processing and refining, transportation and storage, oilfield services, fuel distribution, and forced evictions among others.

✓ Management of proceeds

The allocation of the net proceeds will be tracked by registration in the bank's sustainability portfolio and managed on a portfolio basis by the Finance Department. If a financed project ceases to fulfill the framework's eligibility criteria, the net proceeds will be replaced by the projects that meet the eligibility criteria as soon as reasonably practicable. Unallocated proceeds will be held in cash, cash equivalents, or in other liquid marketable investments, in accordance with the bank's treasury management policies.

✓ Reporting

The bank commits to disclose the allocation of proceeds and impact of financed projects on an annual basis until full allocation. Allocation reporting will include the total amount of net proceeds allocated to each project category, outstanding net proceeds, the proportion of net proceeds used for financing versus refinancing, and the balance of unallocated proceeds. Meanwhile, BDB will report on the aggregate environmental and social impact of the green and social projects and, where feasible, will also report the case studies to highlight qualitative impacts of the eligible projects. On a best-effort basis, the bank intends to disclose key

performance indicators in line with the ICMA Harmonized Framework for Impact Reporting. We note positively that the bank will engage with an independent third party for annual post-issuance verification of its allocation reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Green Buildings

Assessment	Description
Light green	Financing related to the planning, design, construction, operation, maintenance, renovation, acquisition, and ownership of energy-efficient buildings that meet at least one of the following criteria: o Building has a recognized international certification (at least applied or pre-certified)* with a minimum certification level of LEED Gold, BREEAM Excellent, or EDGE (Excellence in Design for Greater Efficiencies) certification** or other equivalent or higher level of certification with high level of energy efficiency, selection of sustainable materials and sustainability clauses included in leasing contracts, or o Buildings with a min. level A EPC (primary energy demand) are considered eligible. In case of financing buildings renovations (via for example the insulation of walls and roofs, and facades) leading to the fulfillment of the following criteria: o Reduction of net primary energy demand or carbon emissions of at least 30% in comparison with the performance of the building before the renovation. * In case of a denied certification or a not sufficient final certification the loan will be excluded from the Eligible Project Portfolio. ** Levels qualified: EDGE Certified, EDGE Advanced, and EDGE Zero carbon.

Analytical considerations

- The IEA emphasizes that reaching net-zero emissions in buildings demands major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Addressing physical climate risks is key to strengthening climate resilience across all buildings.
- BDB's split of proceeds between acquisition, new construction, and renovation is not yet known and will depend on market conditions. However, the bank's loan portfolio currently has similar levels of exposure to both real estate purchases and construction. In our view, the eligibility criteria for new and existing buildings ensure that buildings that promote sustainable practices are financed, focusing on some of the most material issues in this sector, such as energy performance. Nevertheless, these criteria do not necessarily ensure these buildings represent the highest environmental ambitions. As such, we assess activities related to acquisitions and new construction as Light green. We could consider renovation and energy efficiency measures to be Medium green on a stand-alone basis, however, absent information on the expected split between renovation and other building activities, we assign the overall project category a Light green shade.

- Both new and existing properties are exposed to physical climate risks. BDB has relatively limited screening for physical climate risk integrated into lending decisions. Please see the issuer sustainability context for more details. However, specific to new construction, BDB assesses potential physical climate risks and works with project developers to include resilient features such as draining systems.
- BDB will typically use green building certifications to identify eligible buildings. Green building certifications cover a broad set of environmental issues; however, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Often their point-based systems do not guarantee low carbon new construction nor highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and the type of certification. For example, design phase certifications are generally more robust than "in-use" certifications. The latter can be a solid way of enabling a continued improvement in energy performance though proper management, but seldom include specific energy-efficiency thresholds. As an alternative, BDB might finance buildings that receive an energy performance certification (EPC) A. EPCs in Uzbekistan range from 'A' to 'G,' with 'A' being the most efficient and equivalent to around 40% more efficient than the regulation for new buildings. However, EPCs are not yet widely used in Uzbekistan so we think it unlikely they will be used for identifying eligible buildings compared to the other framework criteria.
- For new construction, while embodied emissions in building materials are significant, the framework does not include criteria to systematically seek to reduce them. Even so, the bank considers embodied emissions when financing new assets including encouraging the use of low carbon materials and sustainable practices, as well as locally-produced materials to reduce emissions related to transportation.
- No new buildings with fossil fuel heating will be financed under the framework. According to the issuer, new buildings in Uzbekistan are not allowed to use fossil fuels for heating and instead use other low-carbon sources. However, existing buildings may still rely on fossil fuel heating as long as they meet the requirements of the framework, thereby contributing to continued high emissions and reliance on fossil fuels.

Renewable energy

Assessment	Description
Dark to Medium green	Financing related to equipment purchase, acquisition, development, manufacturing, construction, installation, operation, distribution, and maintenance of renewable energy projects including: ▪ Wind power. ▪ Solar power. ▪ Hydropower. – Solar power set purchase, including solar panels, controllers, and inverters – Hydropower facilities* – For new projects subject to an EIA, an assessment by a credible body is to be carried out with no significant risk or expected negative impact identified ▪ Geothermal projects (with direct emissions lower than 100gCO2/kWh according to a greenhouse gas lifecycle assessment). ▪ Other low-carbon energy sources with lifecycle emissions lower than 100gCO2e/kWh. ▪ Energy storage projects (pumped hydro storage, compressed air energy storage, thermal energy storage, and flywheel energy storage). ▪ Smart grid solutions for more efficient transmission/distribution of energy as well as monitoring of energy consumption. ▪ Construction, renovation, or refurbishment of electricity grids that partly transmit renewable energy: Only assets aimed at increasing the share of renewables in the national electricity grid are eligible.

Note: Any projects, activities, and operations related to oil and gas exploration and extraction, processing and refining, transportation and storage, oilfield services, and fuel distribution will not be financed under this framework.

*Hydropower facilities should either comply with power density above 5 W/m^2 or direct greenhouse gas emissions below 100gCO_2e/kWh. For hydropower facilities in operation after 2020, power density above 10W/m^2 or direct emissions below 50 gCO_2e/kWh apply.

Analytical considerations

- Renewable energy projects such as solar photovoltaic (PV), wind, and hydropower are key to limiting global warming to well-below 2°C, provided their negative impacts on the local environment, and physical risks, are sufficiently mitigated.
- We assess the overall project category as Dark to Medium green, reflecting our assessment of renewable energy generation such as wind, solar, hydropower, geothermal, and other low carbon energy sources as Dark green, as well as investments in the grid that we consider Medium green. According to the IEA, the majority of electricity generation in Uzbekistan came from natural gas (82.2%) in 2022, with 8.7% from hydro and 7.6% from coal. Due to the large proportion of electricity being generated from fossil fuels, there are carbon lock-in risks associated with grid investments. However, the country has objectives to decarbonize the grid and reach 40% of electricity production from renewables by 2030.
- Positively, the issuer confirmed that no renewable energy generation will directly power oil- and gas-related activities. Only hydropower projects that have a power density of above 5W/m^2, or lifecycle greenhouse gas emissions less than 100g CO2e/kWh are eligible for financing, in line with the EU Taxonomy substantial contribution criteria (SCC). Furthermore, these requirements are stricter for hydropower facilities in operations after 2020, where the power density must be above 10W/m^2 or direct emissions below 50 gCO_2e/kWh.
- Improving the efficiency of electricity networks is key to achieving a low carbon climate resilient (LCCR) future in line with the 2050 Paris Agreement. Smart grids help to better match the supply and demand of electricity in real time. The overall climate benefits, however, depend on the grid's energy mix and its progress toward decarbonizing, with less than 10% of electricity generation in Uzbekistan being from renewable sources in 2022. As such, investments in these grids continue to be associated with a level of carbon-lock in. However, it is positive that BDB will only finance the construction, renovation, or refurbishment of grids that already partly transport renewable energy and are expected to increase the proportion of renewable energy. Furthermore, no connections between fossil generation assets and the grid will be eligible for financing under the framework.
- Electricity storage technologies can facilitate the scaling of renewable energy capacity. Storage projects financed under the framework are expected to be connected to the grid and will therefore contribute to decarbonizing end-consumers including households and businesses. However, although these systems are mainly expected to store renewable energy, it is expected that they may also store energy produced from fossil fuels, as well as nuclear. The issuer will prioritise renewable energy storage and will track this through certificates of origin and grid monitoring. Furthermore, there are significant supply-chain exposures related to the metals (aluminum) and materials (lithium, cobalt) used in batteries, as well as end-of-life pollution risks associated with hazardous chemicals.
- The issuer confirmed bioenergy is not in scope for financing under the framework.
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets. BDB has relatively limited screening for physical climate risk integrated into lending decisions. Please see issuer sustainability context for more details.

Energy Efficiency

Assessment	Description
Light green	Financing related to the development, implementation, maintenance, or repair of products or technologies that reduce energy consumption or improve resource efficiency. Examples include, but are not limited to:

- Improving the energy efficiency of an industrial production process in a factory across various sectors that aim to achieve an at least 30% improvement in energy efficiency.
- Energy efficient lighting (e.g., LEDs).
- Fiber optic networks with minimal environmental impact to replace more energy intensive alternative networks.

Analytical considerations

- Improvements in energy efficiency are important across the economy, with the potential to reduce greenhouse gas emissions through reduced energy used, improving alignment with an LCCR future. That said, when improving energy efficiency there is the risk of rebound effects where improved efficiency can lead to increased demand, reducing the achieved energy savings.
- We assign the project category a Light green shade because the framework criteria are broad, although do include a required improvement of 30% when applied to industrial processes. Industrial processes are often reliant on fossil fuels, and increasing their efficiency does not lead to the phasing out of fossil fuel use. The project category also includes investments in fiber optic networks to replace existing networks, which we consider to be Light green.
- Fiber optic cables are among the most energy efficient technology for broadband access networks. Fiber relies on fewer intermediate devices and amplifiers than other technologies, which facilitates energy efficiency. Furthermore, we view positively that fiber optics use fewer raw materials, have a longer lifespan, and require less maintenance than copper. However, the extent to which digitalization can provide material climate benefits is still disputed and is difficult to quantify, mainly resulting from the likely overall increased energy use, coming from energy-intensive end uses (streaming, artificial intelligence, virtual reality, among others).
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets. BDB has relatively limited screening for physical climate risk integrated into lending decisions. Please see the issuer sustainability context for more details
- Energy efficiency will not be applied to fossil-fuel-generation assets.

Clean Transportation

Assessment	Description
Dark green	Finance or refinance eligible loans for the manufacturing, acquisition, and modernization of zero direct emission vehicles as well as related infrastructure* and development, and the manufacture or purchase of key components for clean transportation. Financing related to the development, construction, acquisition, operation, maintenance, and upgrades of zero-carbon and low-carbon transport assets: ▪ Zero-carbon transport: investments in public transportation (buses, trains, trams, ferries for example) as well as passenger and freight vehicles with zero tailpipe emissions, such as electric and hydrogen vehicles Infrastructure related to electric transportation of passengers and freight, such as electrified railways, charging stations for EVs, and bicycle paths. *Excluding vehicles that are used for the purpose of transportation and storage of fossil fuels. Eligible infrastructure does not include parking facilities.

Analytical considerations

- Zero-carbon transport such as EVs and rail transport are key to decarbonizing land transportation. In infrastructure projects, value chain emissions and environmental impacts can be significant and should be carefully managed--for example, by

choosing low-carbon construction materials. Physical climate risks also are a material consideration for all infrastructure projects.

- We assign a Dark green shade to the project category because investments in zero-carbon transport, particularly those directed toward public transportation, are in line with an LCCR future. Investments in public transportation have the additional benefit that they are much more resource efficient than private vehicles.
- Value chain emissions for EVs depend, among others, on the grid's energy mix. According to the IEA, the majority of electricity generation in Uzbekistan came from natural gas (82.2%) in 2022, with 8.7% from hydro and 7.6% from coal. The country aims to reach 40% of electricity production from renewables by 2030. Battery packs in vehicles and charging stations are subject to supply chain risks, namely from the extraction of minerals (lithium and cobalt). Similarly, value chain emissions from hydrogen vehicles depend on the source of hydrogen, with green hydrogen having the greatest benefits from a climate perspective.
- Vehicles will not be used for the transportation or storage of fossil fuels.

Environmentally Sustainable Management of Living Natural Resources and Land Use, Agriculture, and Forestry

Assessment	Description
Medium to Light green	Financing related to the environmentally sustainable management of living natural resources and land use including: • Rehabilitation of degraded land: Projects aimed at restoring soil fertility and reducing erosion through sustainable agricultural practices (for example crop rotation, agroforestry). • Agroecological farming: Transition from traditional farming to agroecological methods that support biodiversity and soil health. • Organic farming initiatives: Supporting farmers in transitioning to organic farming, reducing dependency on chemical fertilizers and pesticides. • Climate-resilient crop cultivation: Adoption of drought-resistant crops and smart farming technologies to improve yields in the face of climate change. • Urban greening projects, such as park and green areas development and restoration.

Analytical considerations

- Agricultural practices that reduce climate emissions from crop farming and enhance soil health, water quality, and ecosystem integrity are central to an LCCR future. Sustainable inputs and farming practices, as well as a shifting to more plant-based and lower- emissions protein sources, contribute to a green transition for this sector. The project category includes a range of projects delivering different levels of environmental benefits, leading us to assess it as Medium to Light green.
- The issuer will finance agroecological farming practices with the aim to transition from conventional to agroecological approaches. The issuer will focus on activities such as erosion control, soil restoration, and sustainable farming methods in areas with already degraded land or high land-use pressures. Such agroecological production systems tend to recover better from climate shocks and generate lower greenhouse gas emissions, and we assign these a Medium green shade. However, there are differences in the definitions and implementation of such practices globally.
- The proceeds will also finance organic farming initiatives. Organic farming has broad environmental benefits, including reduced use of fertilizers and pesticides, reduced water use, and improved soil organic content. However, we assign a Light green shade because the initiatives' overall impacts on greenhouse gas emissions remain uncertain, and organic farming often requires more land area than nonorganic farming practices.

- It is positive that the issuer excludes chemical fertilizers from the scope of the financing given the significant on-field emissions associated with the application of such fertilizers.
- Crops are highly exposed to physical climate risks such as chronic changes in rainfall and temperatures. Extreme weather events can directly lead to reduced crop yields. Investments in climate-resilient crop cultivation hold significant promise in helping agriculture adapt to climate change and support our Medium green shade. Nevertheless, we note that smart farming technologies, like any other technology, come with life cycle emissions from the production, operation, and disposal stages. Crop cultivation, on the other hand, carries risks associated with land-use change and other environmental impacts, such as pollution and water quality and quantity.
- We assess BDB's investments in urban greening projects, such as the development and restoration of parks and green spaces, as Light green given the potentially limited environmental benefits. Expected benefits include improving air quality, sequestering carbon, and enhancing biodiversity. While the rehabilitation of degraded land will help restore soil heath and provides other benefits, the restored land will be used for agricultural purposes, which comes with environmental risks.
- Positively, livestock feed projects or farming are excluded from the financing.
- According to the bank, greenhouse gas emissions and biodiversity loss risks associated with projects are assessed by conducting environmental assessments of potential emissions and considering biodiversity impacts during the project evaluation phase. Projects located in or near high-conservation-value areas are subject to more rigorous scrutiny to ensure they do not lead to deforestation, degradation of natural habitats, or loss of carbon sinks. The bank encourages practices that enhance habitat conservation and restoration, such as agroforestry and maintaining buffer zones around sensitive ecosystems.

Pollution prevention and control

Assessment	Description
Medium to Light green	Financing the development, construction, operation, and maintenance of sustainable waste management, sorting, separation and recycling projects, activities, and operations, such as: • Waste prevention, waste reduction, and waste recycling. This includes the development, operation, and upgrading of recycling plants and recycling activities such as for metals, plastic, and paper. • Reduction of industrial air emissions and greenhouse gas control: The purchase of new, and the refurbishment of existing, equipment, technologies, and facilities that provide at least a 20% reduction in carbon emissions and/or serve as fossil fuel replacements.

Analytical considerations

- Waste management is an important pollution prevention measure that can prevent harm to human health and local ecosystems from waste streams. Recycling, if done properly, increases the useful life of materials, thereby reducing carbon and other air pollutants' emissions, energy, and natural-resource use.
- The project category includes a range of projects delivering different levels of environmental benefits, leading us to assess it as Medium to Light green.
- Waste prevention, reuse, and recycling activities are preferred solutions under the waste management hierarchy because they have the lowest negative environmental impact among other waste management options. The waste streams in scope of the financing include all possible types, except for nuclear, oil, and gas waste. The bank will focus both on promoting reuse initiatives and recycling. We note, nevertheless, that waste-to-energy solutions are also eligible for financing. While energy recovery (incineration) is a more environmentally friendly solution than landfilling, it only represents a transition step toward a low carbon future, given the associated emissions, air pollution concerns, and the absence of quantitative thresholds. According to the issuer, local regulation requires limits on PM10 and NOx. Plants are expected to use technologies to reduce air pollutants including flue gas desulfurization systems and selective catalytic reduction units.

- Positively, chemical recycling of plastic will not be financed; this carries higher environmental risks than the mechanical recycling of plastic. Also, the recycling of electronic waste will be accompanied by a robust waste management plan to mitigate associated risks. In addition, the issuer commits to segregating the source of waste prior to waste collection.
- The proceeds will also finance technologies and facilities that provide at least a 20% reduction in carbon emissions and/or serve as fossil fuel replacements. These technologies also aim at reducing air emissions across a range of sectors and industrial processes and do not include fossil-fuel generation assets. Industrial projects eligible for financing under the framework will have to meet specific environmental and social requirements to mitigate potential value-chain risks.

Eco-efficient circular economy adapted products, production technologies and processes

Assessment	Description
Light green	• Financing resource use efficiency and circular and / or recyclable products - Circular Design and Production Projects: o Solutions that extend the product life cycle, such as applying modular design or design for disassembly, take-back schemes, and redeploying products (reverse logistic), reuse, repair, and/or product regeneration and refurbishment. o Production technologies and processes that use recycled resources such as bio-based materials (the latter being sustainable sourcing certifications for bio-based materials, such as EU Ecolabel, IEC, and RSB scheme) are considered eligible. Virgin plastic-based solutions are excluded.

Analytical considerations

- Circular economy services are key to a low carbon future because they can help reduce resource use and waste, for example by extending the life of products through reuse or repair, or by recycling. The bulk of goods' greenhouse gas emissions and environmental impacts typically lies in the sourcing of raw materials and their energy-intensive transformation into finished goods. In this project category, BDB aims to finance a range of products and technologies that reduce their environmental footprint throughout their lifecycle.
- The framework criteria are broad and could cover a wide range of project types, with no quantifiable thresholds or further details on eligibility criteria. Therefore, because the environmental benefits of these projects could be less obvious and might be less meaningful, we assign a Light green shade.
- According to the issuer, recycled resources such as bio-based materials only refer to materials derived from renewable biological sources such as cotton, hemp, wood, cork, and bio-based plastics, and these materials will require a certification as outlined in the framework. For example, biodegradable packaging materials might be produced from agricultural by-products such as wheat husks or corn stalks. Materials using recycled components such as plastic are not eligible for financing under the framework. Substituting plastic and fossil-based fibers with alternative bio-based materials is positive for pollution prevention and for avoiding links to fossil fuel feedstocks, provided that the biomass is sourced sustainably.
- The requirement for bio-based materials to receive a certification could help manage risks related to sourcing. EU Ecolabel requires life cycle analysis evidence that bio-based products perform better than alternatives. However, this can be challenging to assess given the heterogeneity of bio-based products. Furthermore, although the RSB certification may add objectivity to project selection, like with EU Ecolabel, some social elements also influence the certification, limiting insight on the certified assets' environmental performance.
- Some projects might support the production of electronic components--for example, casing and insulating materials made from biodegradable polymers that comply with International Electrotechnical Commission (IEC) environmental and technical standards. Although IEC standards do not explicitly consider greenhouse gas emissions, they could support a reduction in emissions due to their focus on energy efficiency.

Sustainable Water and Wastewater Management

Assessment	Description
Light green	• Financing related to the development, construction, acquisition, installation, operation, maintenance and upgrades of sanitary and sustainable water and waste-water management projects and facilities, such as: o Sustainable water and sewage infrastructure; wastewater treatment. o Water treatment facilities; activities and technologies that increase water quality; sanitation facilities. o Upgrades to wastewater treatment plants to remove nutrients; wastewater discharge infrastructure. o Water collection, treatment, and supply systems with improved energy efficiency by either decreasing the net average energy consumption of the system or improving the average leakage, by at least 20% compared to own baseline performance averaged for three years. o Technologies that increase water-use efficiency, water recycling, and reuse; water saving systems and technologies and water metering. Construction, extension, and operation of wastewater collection and treatment systems. o Flood mitigation infrastructure.

Analytical considerations

- Financing the development, construction, acquisition, installation, operation, maintenance, and upgrades of sanitary and sustainable water and wastewater management projects can result in positive environmental benefits in terms of water consumption and water security and is necessary to achieve 2050 Paris Agreement objectives. Such measures are particularly important given the local context, with Uzbekistan having an arid climate with limited water resources. Currently 80% of water sources originate from neighboring countries. Under this project category, the bank will cooperate with local state authorities and the Ministry of Water Resources to implement strategies aimed at reducing water loss and promoting sustainable water use.
- The framework criteria are broadly defined, and projects are expected to meet regulatory requirements but not exceed them. As such, we assign a Light green shade to this category. Furthermore, the framework criteria do not require specific improvements for all projects financed under the category, limiting comparability of benefits.
- Systems to treat and convey water are energy intensive, and might generate significant waste, exacerbate water stress for other stakeholders, or disrupt hydrology and aquatic ecosystems if not sufficiently managed. Improvements in water efficiency help reduce demands on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance, and therefore help achieve an LCCR future. Water supply systems are key to achieving reliable access to sufficient water of adequate quality, for all stakeholders. That said, these systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems, if not sufficiently mitigated.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystems and public health, and as a result are key to an LCCR future. The primary benefits include improved water quality and have important cumulative effects in a watershed; such systems can help relieve water stress and be a source of nutrient and energy recovery depending on the system. That said, these systems are energy intensive and can produce significant solid waste and methane if not sufficiently managed. BDB informed us that the funded wastewater treatment plants will mainly treat waste generated from industrial processes including manufacturing, food processing, and textiles and chemical production. The majority of waste products are expected to be either landfilled or used for land application, which could lead to further downstream environmental risks if not managed adequately.
- Sustainable water and wastewater treatment plants are typically powered by fossil fuels. According to the bank, operational emissions associated with the assets are managed in line with local regulations and do not go beyond. Furthermore, the bank

does not currently have information on the carbon intensity of the systems but aims to work with state authorities and consultants to collect this data and implement initiatives to reduce it.

- Flood mitigation measures help develop resilience to increased flooding from climate change. These may have high embodied emissions when constructed and can shift vulnerability to flooding to other groups. Please see the climate change adaptation project category for more details on the shades we assign to such projects.

Terrestrial and aquatic biodiversity

Assessment	Description
Medium to Light green	Financing related to terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine, and watershed environments). Projects targeting biodiversity include: • Financing infrastructure and management for national parks, wildlife sanctuaries, or eco-tourism zones. • Establishing parks, green roofs, and urban forests that support biodiversity. • Financing restoration programs, including planting native vegetation and constructing water flow regulation structures.

Analytical considerations

- Eligible projects, if managed adequately, can have significant co-benefits for climate adaptation and biodiversity given related critical ecosystem services such as carbon sequestration or adaptation solutions. BDB says that its investment projects are expected to include the development of national parks, habitat restoration, afforestation, or reforestation efforts and REDD+ Projects (Reducing Emissions from Deforestation and Forest Degradation).
- We assign a Medium green shade to conservation and restoration activities. Such projects provide additional carbon sequestration benefits and potential resiliency from reforestation. On the other hand, other financed activities have more limited environmental benefits, such as parks, green roofs, urban forests, and eco-tourism, which we view as Light green.
- Afforestation and reforestation projects will not involve nonnative species, potentially leading to higher biodiversity and climate resilience benefits while sequestering carbon and reducing erosion. Furthermore, greening, plantation, and landscape restoration projects could contribute to biodiversity conservation, natural ecosystems, and habitats.
- Eligible eco-tourism projects include financing infrastructure development that may include the construction of buildings, as well as associate infrastructure and potentially vehicles. While eco-tourism carries high potential environmental and climate risk, associated with construction in eco-sensitive areas and fossil fuel modes of transport, we believe these are mitigated by the fact that any financed buildings and vehicles need to meet the respective green framework criteria and by the issuer's incorporation of biodiversity considerations to avoid biodiversity loss.
- The bank mandates that borrowers or project operators conduct environmental risk assessments and incorporate biodiversity conservation principles, adhering to both local and international standards. As part of this, all projects are assessed for their potential impact on endangered species, ecosystems, and natural resources. In cases where projects are expected to result in land-use change they must also demonstrate that this will not result in the loss of critical habitats or decline in biodiversity. BDB has informed us that, in practice, project selection involves site assessment, stakeholder consultation, and evaluation of potential biodiversity risks.

Climate change adaptation

Assessment	Description
Medium green	Financing adaptation projects focused on enhancing preparedness and resilience to expected changes in climate, as well as any actual changes experienced. Includes projects that: • Seek to moderate or avoid potential harmful effects on people, nature and/or economic activities and assets (for example infrastructure, buildings), as well as; • Investments that provide sustained adaptive solutions and enhance the overall resilience (for example fireproof roofs, other building elements to withstand higher temperatures, water-management systems for irrigation, and climate change monitoring systems). Projects, as well as impact reporting metrics, are organized according to type of climate hazard: • Temperature-related: Heatwaves, increasing heat stress, temperature variability. • Wind-related: Dust, storms, sandstorms. • Water-related: Floods, droughts, heavy precipitation. • Land-related: Mudflows, avalanches, landslides, locust invasion.

Analytical considerations

- Climate scientists have been clear that some degree of climate change will take place, even in the most optimistic scenarios. This makes it crucial to plan for and mitigate potential risks to reduce the financial and environmental effects. Implementing adaptation solutions can also reduce resources and emissions linked to rebuilding damaged assets.
- BDB expects to mainly finance adaptation measures that require construction. These typically have high embodied emissions, and we assess them as Medium green. Although nature-based solutions might also be financed, and are generally Dark green because of their biodiversity co-benefits, these are expected to be a relatively small proportion of the financing. Therefore, they do not influence the overall shade of the project category.
- The financing includes adaptation and resilience measures that require construction, which can lead to substantial emissions during the construction phase (the instance the use of fossil-fuel-powered equipment) and heavy materials use (cement in particular). According to BDB, life cycle assessments are carried out to identify the carbon footprint of materials.
- It is important to identify and manage the potential risk of maladaptation--that is, shifting vulnerability to other parties of climate-related events--and eligible projects' impacts on local biodiversity. The bank manages these risks in part by engaging in stakeholder consultations and working with local authorities and environmental experts, which might leverage scenario analysis.
- JSBC identifies material climate hazards by collaborating with governmental agencies including the Ministry of Ecology, Environmental Protection and Climate Change, the Ministry of Emergency Situations, and the Hydrometeorological Service Agency. As part of these assessments, both historical weather data and forward-looking climate scenarios are used. Details on which climate-scenarios are used have not been provided by BDB, however we understand that the timeframe in which they will be applied is based on the financing period of the project.
- Measures to increase the resilience of oil- and gas-related assets, as well as fossil fuel generation assets, are excluded from the financing.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Education and vocational training

Financing related to practical, education, and hands-on vocational training in high-demand sectors: business planning, marketing, financial management, construction, hospitality, agriculture, IT, and renewable energy (financing for education and training centers' construction, reconstruction and renovation, the acquisition of relevant equipment).

Target population: Young people (ages 16-30); unemployed individuals; women, particularly in rural and underserved areas; and those without formal higher education.

Analytical considerations

- Enabling access to education and vocational training in Uzbekistan is crucial for fostering economic growth and lifting people out of poverty. By promoting education and practical skills development, Uzbekistan can empower its population, equip people with the necessary tools for the job market, and reduce unemployment rates. While higher education plays a key role in enhancing knowledge, vocational training will help bridge the gap between academic knowledge and industry needs.
- The issuer clearly outlines the target population in the framework, which covers unemployed individuals, young people (ages 16-30), women, particularly in rural and underserved areas, and individuals without formal higher education. Positively, the issuer has established a strategy to ensure that the target population remains eligible throughout the life of the loans. This involves a multi-faceted approach aimed at monitoring, evaluation, and support mechanisms. For example, the bank maintains regular communication with beneficiaries to monitor their progress and ensure they continue to meet eligibility criteria; periodic check-ins and assessments are conducted to evaluate participants' engagement in the educational programs or vocational training. By establishing feedback loops, the bank can identify any changes in circumstances that might affect eligibility, such as financial challenges or changes in employment status.
- The bank commits to ensuring that the interest rates charged on loans for education and vocational training do not impede the ability of the eligible population to continue making payments in the future. Given the central bank's control over financial institutions in Uzbekistan, the bank is committed to adhering to the regulatory framework, while also considering the economic context, including current inflation rates.
- Proceeds under this project category will mostly finance the construction, reconstruction, and renovation of education and training centers in Uzbekistan. The objective is to increase the number of youth and adults with relevant skills in high-demand sectors, such as business planning, marketing, financial management, renewable energy, and IT, among others. In our view, the proceeds will help address one of the most material social issues in the country, given that the lack of proper school infrastructure and facilities remains one of the key problems in Uzbekistan, according to the World Bank.
- While the country has made strides in expanding its education system, there is still a shortage of universities and institutions to accommodate the growing number of students completing secondary education. This leads to overcrowding in existing institutions. Many students from rural areas, in particular, face difficulties in accessing higher learning institutions due to geographic and financial barriers. This, in turn, limits opportunities for personal development and upward mobility. Moreover, many educational facilities in the country continue to face challenges such as outdated or insufficient infrastructure, inadequate classrooms, and a shortage of relevant equipment. In response, under the Development Strategy of New Uzbekistan for 2022-2026, the country aims to increase student places to 6.4 million by 2026 and build seven universities in Namangan, one of the underserved regions. In addition, the country plans to establish vocational education opportunities, doubling the scope of training for one million unemployed people.
- Additionally, we view positively that BDB identifies that this project category supports SDG 4.4. This target aims to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs, and entrepreneurship by 2030.
- The proceeds will also target access to education for women. In our view, this is particularly relevant for Uzbekistan, given that only 13.2% of women over 25 have completed higher education compared to 20% of men in the same age category. Moreover, according to World Bank country gender assessments, young women in Uzbekistan face higher unemployment rates than men, (15.5% and 10.0%, respectively) and the share of young women who are not in employment, education, or training (NEET) has reached 42.0%, compared to 8.8% for males.

Access to essential services

Financing related to:

Construction, renovation, expansion, modernization, equipment purchases, or maintenance of health care facilities for the provision of free or subsidized health care services. For example: hospitals, diagnostic and other laboratory services, rehabilitation centers, treatment centers, nursing homes, assisted living, homes for the elderly.

Production and distribution of vital medication, medical equipment, and medical supplies needed for the prevention and/or treatment of public health emergencies, particularly common among vulnerable groups such as children, women, the elderly.

Regional development and/or infrastructure in underserved, underdeveloped regions in Uzbekistan (for example public transport and related infrastructure, sanitation infrastructure, high speed internet, telecommunications and electricity-related infrastructure, firefighting and rescue equipment, access to clean drinking water). Such infrastructure projects will be eligible only in underdeveloped regions where they are currently not present or are inadequate.

Analytical considerations

- Eligible projects are in line with the Uzbek government's several strategic priorities related to improving access to essential services, such as health care, basic infrastructure, and drinking water as part of its broader national development goals. The issuer clearly outlined the target population in the financing framework, including children under 14, women, individuals aged 60 years and older, people with chronic illnesses and disabilities, and people living in remote or underserved areas.
- The proceeds will finance construction, renovation, expansion, equipment purchases, or the maintenance of health care facilities for the provision of free or subsidized health care services, such as hospitals, laboratories, rehabilitation centers, among others. This, in turn, will contribute to achieving the national goal of universal health coverage, access to quality essential health care services and to safe, effective, and affordable essential medicines and vaccines. In Uzbekistan, while health care is publicly funded, significant gaps remain in terms of accessibility. Many health care services, including some primary, secondary, and tertiary care, are not fully covered by the state. This leads to high out-of-pocket expenditures, accounting for around 57.7% of health spending in Uzbekistan according to the World Health Organization. This was only slightly higher than the Central Asian average of 57.1% but double the WHO European regional average of 28.7%. The universal health coverage index illustrates considerable improvement in Uzbekistan over the past two decades, increasing from 56 in 2000 to 71 in 2019. Nevertheless, these figures are below the averages for the WHO's European region, but slightly higher than the average for Central Asia.
- The production and distribution of vital medications, medical equipment, and supplies are important topics for Uzbekistan, particularly in the context of public health emergencies, as they ensure timely and effective responses to health crises. These resources are especially important for vulnerable groups, such as children, women, and the elderly, who are more susceptible to diseases and complications. For example, in the context of the COVID-19 pandemic, the WHO has highlighted the provision of essential health services, particularly for vulnerable groups, as a key challenge for Uzbekistan. Financing the availability of medical supplies will enhance the country's preparedness for epidemics, chronic disease management, and maternal and child health services, in our view.
- Financing related to the development of infrastructure in underserved regions of Uzbekistan is highly relevant for the country's long-term social and economic development. Many rural areas face challenges in accessing basic services such as clean drinking water, sanitation, and public transport. These infrastructure gaps not only hinder the quality of life but also limit economic opportunities and exacerbate regional inequalities. For example, Uzbekistan's water services and sanitation infrastructure was predominantly constructed during the Soviet period and is considered in need of extensive rehabilitation and renewal. In addition, public transport infrastructure has not kept pace with demographic and economic changes, largely because of underinvestment in the maintenance of existing assets (World Bank). Positively, the issuer informed us that fossil-fuel-powered vehicles are excluded from the financing under this project category.
- Additionally, we view positively that BDB identifies that this project category supports SDG 3.8. This target aims to achieve universal health coverage, including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all.
- All social projects, including those included under this project category are assessed in accordance with the bank's ESMS policy.

Affordable Housing

Construction of affordable apartments and houses. Eligibility criteria:

- Compliance with local building standards ensuring energy-efficient and environmentally sustainable housing.
- Projects must involve construction of residential housing priced below the established regional market rates for low-to-moderate-income populations.
- Priority given to projects in underdeveloped or underserved regions lacking sufficient housing infrastructure.

Financing the purchase of affordable apartments and houses. Eligibility criteria:

- Financing provided exclusively for housing units listed under government-approved affordable housing programs in the primary market.
- Loan applicants must meet specific income thresholds as per government-defined "affordable housing" benchmarks.
- Homes purchased must meet affordability criteria, including capped square footage and regional price limits.

Analytical considerations

- The construction of affordable housing for low-to-moderate-income families in underserved regions of Uzbekistan is key to addressing the country's housing shortages, improving living conditions, and promoting social equity.
- Aligned with the principles, the issuer clearly outlined the target population in the framework, which includes low-Income families, women, public-sector employees with limited means, first time homebuyers, and young families.
- The issuer aims at financing the construction of affordable residential buildings mostly in Uzbekistan's underdeveloped or underserved regions. Affordability is defined by pricing the houses below the regional market rates and for low-to-moderate income populations. Low-to-moderate-income households are typically defined by income levels below the regional median, with specific thresholds established in collaboration with local government. In our view, proceeds will address a material social issue for Uzbekistan, given the current housing deficits. It is estimated that Uzbekistan needs to construct approximately 45,000 residential units each year to address the existing housing shortage caused by overcrowding and inadequate living conditions. A recent government survey revealed that 80% of respondents highlighted the need for housing improvements, and a report from the United Nations Economic Commission for Europe outlined the poor housing conditions in the country.
- The proceeds under this project category will also finance the purchase of affordable apartments and houses that are listed under government-approved affordable housing programs. In our view, this is important for Uzbekistan given that housing prices continue to grow at high rates compared to the population's income. Specifically, in 2023 the market value of housing increased by 36%, while the average monthly salary increased by 17%. This indicator was higher than in some countries of Central Asia, the Caucasus, and others. The income thresholds the loan applicants must meet have been set in accordance with the government-defined affordable housing benchmarks. Specifically, as of 2024, the thresholds for low-income households in the Republic of Karakalpakstan and other regions vary from UZS3,118,500 (US$241) to UZS9,240,000 (US$713) per month, based on 2.7 to 8.0 times the minimum wage of UZS1,155,000 (US$89). In Tashkent City this ranges from UZS3,118,500 (US$241) to UZS10,626,000 (US$820) per month, based on 2.7 to 9.2 times the minimum wage of UZS1,155,000 (US$89).
- Homes purchased must meet the affordability criteria, including the capped square footage and regional limits. The affordability criteria under the framework are aligned with national legislation and the eligibility standards set by the Mortgage Refinancing Company of Uzbekistan. Based on these criteria, in Tashkent the maximum eligible property price is up to UZS800 million (US$62,000). In Karakalpakstan and other regions, the maximum eligible property price is up to UZS500 million (US$39,000). Although the legislation does not specify a limit on square footage, the issuer informed us that it will be focusing on projects where the total area does not exceed 100 square meters per apartment. By capping the size of properties, construction costs can be reduced, which, in turn, helps keep the price of housing lower.

- Additionally, we view positively that BDB identifies that this project category supports SDG 11.1. This target aims to ensure access for all to adequate, safe, and affordable housing and basic services, as well as upgrade slums, by 2030.
- The issuer commits to complying with local building standards ensuring energy-efficient and environmentally sustainable housing. Specifically, the construction process will be assessed for its environmental impact, including considerations of embodied emissions, energy efficiency, and resource usage.

Employment generation and protection: Micro, small, and midsize enterprises (MSME) financing

MSMEs located in underserved, underdeveloped, and rural regions in Uzbekistan.

Meet the definition of MSMEs (in line with the European Union's definition).

Analytical considerations

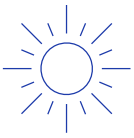
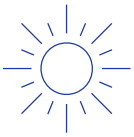
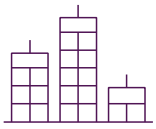
- Financing MSMEs is key to job creation and fostering economic growth. They contribute significantly to GDP in most economies, particularly in developing countries, and are a major source of employment. According to the World Bank, nearly 3.3 million jobs will be needed every month to absorb the growing workforce in emerging markets by 2030.
- The framework specifies that MSMEs be classified in accordance with the European Commission's definition, which is based on number of employees, annual turnover, and annual balance sheet. The target population includes women and youth entrepreneurs, elderly workers aged 50 years and over, migrants and returnees, and the long-term unemployed, particularly in rural and underserved regions.
- The proceeds under this project category will contribute to addressing one of the material social issues in Uzbekistan, given that, as of 2023, the employment rate was 53.7%. We view positively that the issuer will target women and youths, because the employment rate among the female population stood at 37.4% (men 70.5%). Youth unemployment (aged 15 to 24) has remained stable since 2017, accounting for 11% in 2023, according to the country's statistical profile, 2024.
- Under Uzbekistan's 2022-2026 development strategy, promoting MSMEs and improving their access to credit was outlined as a key aim. 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 nepotistic advantages to access financial services. The share of small businesses in Uzbekistan's GDP accounted for 54.5 % and 74.0% of the working population in 2023 (National Statistics Agency, 2024). On the other hand, MSMEs' access to finance is inadequate, with a funding gap equivalent to over US$10.2 billion, according to the International Finance Corporation. Improving access to finance is an urgent issue in the promotion of MSMEs, which are in turn essential for the further development of the country's economy, in our view.
- The bank ensures that target MSMEs remain eligible for loans during their tenure by implementing clear eligibility criteria, monitoring, and support. Initially, the bank establishes performance benchmarks, such as revenue and employment levels, which MSMEs must maintain. Regular assessments of financial health and operational status are conducted by reviewing relevant documentation. The bank also offers advisory services, training, and workshops to help MSMEs enhance operations and financial management. A feedback mechanism allows MSMEs to report challenges in meeting eligibility requirements.
- To reduce risks linked to MSME financing, the bank performs comprehensive evaluations of potential borrowers, focusing on their business viability, social impact, and compliance with environmental regulations. This assessment considers the potential for job creation and the broader impact on economic growth. The bank also establishes protective measures to guarantee that funding is directed toward businesses dedicated to ethical practices and sustainable growth, rather than profit-driven motives. By collaborating with local partners and offering resources for skills development, the bank seeks to empower MSMEs, promoting innovation and resilience in the sector. By aligning loan terms with current market conditions and considering the financial capabilities of the target population, the bank aims to offer competitive interest rates, continuously monitors economic indicators, and adjusts its lending practices as needed to ensure borrowers are not overwhelmed by rising costs.
- Additionally, we view positively that BDB identifies that this project category supports SDG 10.2. This target aims to empower and promote the social, economic, and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion, or economic or other status, by 2030.

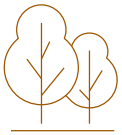
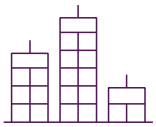
- To measure the success of the financing, the bank focuses on several key performance indicators. This includes job creation, with the bank tracking the number of new jobs generated as a result of the financing, as well as account turnover and revenue increases, the sustainability of the business practices, and overall impact on the local economy.

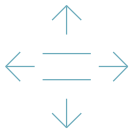
Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Green Buildings	 **11. Sustainable cities and communities***
Renewable Energy	 **7. Affordable and clean energy***
Energy Efficiency	 **7. Affordable and clean energy***  **9. Industry, innovation and infrastructure***
Clean Transportation	

	11. Sustainable cities and communities*
Environmentally Sustainable Management of Living Natural Resources and Land Use, Agriculture and Forestry	 **15. Life on land***
Pollution prevention and control	 **11. Sustainable cities and communities***  **12. Responsible consumption and production***
Eco-efficient circular economy adapted products, production technologies and processes	 **12. Responsible consumption and production***
Sustainable Water and Wastewater Management	 **6. Clean water and sanitation***
Terrestrial and aquatic biodiversity	 **14. Life below water***  **15. Life on land***

Climate change adaptation	 **13. Climate action***
Education and vocational training	 **4. Quality education**
Access to essential services	 **3. Good health and well-being***
Affordable Housing	 **11. Sustainable cities and communities***
Employment generation and protection: Micro-, Small and Medium-size Enterprises (MSME) financing	 **10. Reduced inequalities**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- SPO Spotlight: Second Party Opinions, March 28, 2024
- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

Analytical Contacts

Primary contact

Catherine Baddeley
London
+44 20-7176-0459
catherine.baddeley
@spglobal.com

Secondary contacts

Elene Parulava
Frankfurt
+49 175 5812617
elene.parulava
@spglobal.com

Irina Velieva
Stockholm
+46 70-957-0731
irina.velieva
@spglobal.com

Research contributor

Sreenidhi M K
Pune